



ANNUAL STATEMENT

For the Year Ended December 31, 2008

of the Condition and Affairs of the

Blue Care Network of Michigan

NAIC Group Code.....572, 572
(Current Period) (Prior Period)

NAIC Company Code..... 95610

Employer's ID Number..... 38-2359234

Organized under the Laws of Michigan

State of Domicile or Port of Entry Michigan

Country of Domicile US

Licensed as Business Type.....Health Maintenance Organization

Is HMO Federally Qualified? Yes [X] No []

Incorporated/Organized..... May 6, 1981

Commenced Business..... May 13, 1981

Statutory Home Office

20500 Civic Center Drive..... Southfield MI 48076
(Street and Number) (City or Town, State and Zip Code)

Main Administrative Office

20500 Civic Center Drive..... Southfield MI 48076
(Street and Number) (City or Town, State and Zip Code)

248-799-6400
(Area Code) (Telephone Number)

Mail Address

20500 Civic Center Drive MC C455..... Southfield MI 48076
(Street and Number or P. O. Box) (City or Town, State and Zip Code)

Primary Location of Books and Records

20500 Civic Center Drive..... Southfield MI 48076
(Street and Number) (City or Town, State and Zip Code)

248-455-3630
(Area Code) (Telephone Number)

Internet Web Site Address

www.mibcn.com

Statutory Statement Contact

Penny Jean Wall
(Name)
PWall@bcbsm.com
(E-Mail Address)

248-455-3630
(Area Code) (Telephone Number) (Extension)
248-455-3639
(Fax Number)

OFFICERS

Name	Title	Name	Title
1. Jeanne Helen Carlson	President & Chief Executive Officer	2. Julie Concetta Swantek	Secretary
3. Susan Anne Kluge	Chief Financial Officer & Treasurer	4. Douglas Robert Woll MD	Chief Medical Officer

OTHER

Laurie Lowe Westfall Chief Operating Officer

DIRECTORS OR TRUSTEES

Kedrick David Adkins #	Julie Anne Angott	Mark Robert Bartlett	William Harrison Black
Jeanne Helen Carlson	James Robert Dietz	Shauna Ryder Diggs MD	Janet Louise Harden
DeMerritte Bonta Hiscoe MD	Valeriah Ann Holmon	Robert Paul Kelch MD	Karen Marie Knapp
Donald Glenn Oetman	Calvin Thomas Rapson	Kevin Lewis Seitz	Gregory Alan Sudderth
Diana Lynn Watson			

State of..... Michigan
County of..... Oakland

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC *Annual Statement Instructions and Accounting Practices and Procedures* manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

(Signature)
Jeanne Helen Carlson

1. (Printed Name)
President & Chief Executive Officer

(Title)

(Signature)
Julie Concetta Swantek

2. (Printed Name)
Secretary

(Title)

(Signature)
Susan Anne Kluge

3. (Printed Name)
Chief Financial Officer & Treasurer

(Title)

Subscribed and sworn to before me

This _____ day of _____

a. Is this an original filing? Yes [X] No []

b. If no

1. State the amendment number _____

2. Date filed _____

3. Number of pages attached _____

ASSETS

	Current Year			Prior Year
	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	Net Admitted Assets
1. Bonds (Schedule D).....	184,785,366		184,785,366	144,836,970
2. Stocks (Schedule D):				
2.1 Preferred stocks.....			0	
2.2 Common stocks.....	7,695,160	4,220,342	3,474,818	4,495,364
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens.....			0	
3.2 Other than first liens.....			0	
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$.....0 encumbrances).....			0	
4.2 Properties held for the production of income (less \$.....0 encumbrances).....			0	
4.3 Properties held for sale (less \$.....0 encumbrances).....			0	
5. Cash (\$.....(15,790,073), Sch. E-Part 1), cash equivalents (\$.....0, Sch. E-Part 2) and short-term investments (\$.....549,172,212, Sch. DA).....	533,382,139		533,382,139	515,981,372
6. Contract loans (including \$.....0 premium notes).....			0	
7. Other invested assets (Schedule BA).....	72,830,243		72,830,243	70,835,625
8. Receivables for securities.....	4,686,079		4,686,079	
9. Aggregate write-ins for invested assets.....	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9).....	803,378,987	4,220,342	799,158,645	736,149,331
11. Title plants less \$.....0 charged off (for Title insurers only).....			0	
12. Investment income due and accrued.....	9,919,840		9,919,840	8,233,717
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in course of collection.....	13,142,726	500,037	12,642,689	9,604,876
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$.....0 earned but unbilled premiums).....			0	
13.3 Accrued retrospective premiums.....			0	
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers.....			0	
14.2 Funds held by or deposited with reinsured companies.....			0	
14.3 Other amounts receivable under reinsurance contracts.....			0	
15. Amounts receivable relating to uninsured plans.....	85,004		85,004	
16.1 Current federal and foreign income tax recoverable and interest thereon.....			0	
16.2 Net deferred tax asset.....			0	
17. Guaranty funds receivable or on deposit.....			0	
18. Electronic data processing equipment and software.....	11,916,795	9,852,572	2,064,223	2,242,759
19. Furniture and equipment, including health care delivery assets (\$.....597,528).....	4,115,173	3,517,645	597,528	1,002,325
20. Net adjustment in assets and liabilities due to foreign exchange rates.....			0	
21. Receivables from parent, subsidiaries and affiliates.....	7,127,331	14,965	7,112,366	9,489,876
22. Health care (\$.....9,482,328) and other amounts receivable.....	11,281,958	1,799,630	9,482,328	18,521,644
23. Aggregate write-ins for other than invested assets.....	1,301,769	1,301,769	0	57,866
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....	862,269,583	21,206,960	841,062,623	785,302,394
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0	
26. TOTALS (Lines 24 and 25).....	862,269,583	21,206,960	841,062,623	785,302,394

DETAILS OF WRITE-INS				
0901.			0	
0902.			0	
0903.			0	
0998. Summary of remaining write-ins for Line 9 from overflow page.....	0	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	0	0	0	0
2301. Prepaid expenses.....	1,246,705	1,246,705	0	
2302. Other Accounts Receivable.....	55,064	55,064	0	57,866
2303.			0	
2398. Summary of remaining write-ins for Line 23 from overflow page.....	0	0	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	1,301,769	1,301,769	0	57,866

Blue Care Network of Michigan
LIABILITIES, CAPITAL AND SURPLUS

	Current Period			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$.....5,034,598 reinsurance ceded).....	277,995,814	7,577,097	285,572,911	281,609,762
2. Accrued medical incentive pool and bonus amounts.....	45,355,558		45,355,558	72,590,359
3. Unpaid claims adjustment expenses.....	6,279,210		6,279,210	10,579,858
4. Aggregate health policy reserves.....	3,481,492		3,481,492	5,717,188
5. Aggregate life policy reserves.....			0	
6. Property/casualty unearned premium reserve.....			0	
7. Aggregate health claim reserves.....			0	
8. Premiums received in advance.....	28,353,493		28,353,493	37,397,515
9. General expenses due or accrued.....	35,037,296		35,037,296	39,807,245
10.1 Current federal and foreign income tax payable and interest thereon (including \$.....0 on realized capital gains (losses)).....			0	
10.2 Net deferred tax liability.....			0	
11. Ceded reinsurance premiums payable.....	880,881		880,881	2,144,306
12. Amounts withheld or retained for the account of others.....	912,136		912,136	2,307,417
13. Remittances and items not allocated.....	348		348	
14. Borrowed money (including \$.....0 current) and interest thereon \$.....0 (including \$.....0 current).....			0	
15. Amounts due to parent, subsidiaries and affiliates.....	18,830,716		18,830,716	22,150,065
16. Payable for securities.....	9,658,328		9,658,328	
17. Funds held under reinsurance treaties with (\$.....0 authorized reinsurers and \$.....0 unauthorized reinsurers).....			0	
18. Reinsurance in unauthorized companies.....			0	
19. Net adjustments in assets and liabilities due to foreign exchange rates.....			0	
20. Liability for amounts held under uninsured plans.....	276,308		276,308	1,053,105
21. Aggregate write-ins for other liabilities (including \$....2,230,781 current).....	69,684,123	0	69,684,123	65,835,854
22. Total liabilities (Lines 1 to 21).....	496,745,703	7,577,097	504,322,800	541,192,674
23. Aggregate write-ins for special surplus funds.....	XXX	XXX	0	0
24. Common capital stock.....	XXX	XXX	10,000	10,000
25. Preferred capital stock.....	XXX	XXX		
26. Gross paid in and contributed surplus.....	XXX	XXX	15,643,045	15,643,045
27. Surplus notes.....	XXX	XXX		
28. Aggregate write-ins for other than special surplus funds.....	XXX	XXX	0	0
29. Unassigned funds (surplus).....	XXX	XXX	321,086,778	228,456,675
30. Less treasury stock at cost: 30.1 ....0.000 shares common (value included in Line 24 \$.....0)..... 30.2 ....0.000 shares preferred (value included in Line 25 \$.....0).....	XXX XXX	XXX XXX		
31. Total capital and surplus (Lines 23 to 29 minus Line 30).....	XXX	XXX	336,739,823	244,109,720
32. Total liabilities, capital and surplus (Lines 22 and 31).....	XXX	XXX	841,062,623	785,302,394

DETAILS OF WRITE-INS

2101. Accrued Post Retirement Benefits.....	51,816,217		51,816,217	48,648,360
2102. Accrued Pension.....	14,862,910		14,862,910	14,701,817
2103. Employee Health Insurance accrued payable.....	2,230,781		2,230,781	2,074,779
2198. Summary of remaining write-ins for Line 21 from overflow page.....	774,215	0	774,215	410,898
2199. Totals (Lines 2101 thru 2103 plus 2198) (Line 21 above).....	69,684,123	0	69,684,123	65,835,854
2301.	XXX	XXX		
2302.	XXX	XXX		
2303.	XXX	XXX		
2398. Summary of remaining write-ins for Line 23 from overflow page.....	XXX	XXX	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	XXX	XXX	0	0
2801.	XXX	XXX		
2802.	XXX	XXX		
2803.	XXX	XXX		
2898. Summary of remaining write-ins for Line 28 from overflow page.....	XXX	XXX	0	0
2899. Totals (Lines 2801 thru 2803 plus 2898) (Line 28 above).....	XXX	XXX	0	0

Blue Care Network of Michigan
STATEMENT OF REVENUE AND EXPENSES

	Current Year		Prior Year
	1 Uncovered	2 Total	3 Total
1. Member months.....	XXX.....	6,700,008.....	7,564,671.....
2. Net premium income (including \$.....0 non-health premium income).....	XXX.....	2,138,055,960.....	2,150,301,539.....
3. Change in unearned premium reserves and reserve for rate credits.....	XXX.....	2,235,696.....	(712,483).....
4. Fee-for-service (net of \$.....9,747,593 medical expenses).....	XXX.....	(3,374,019).....	(1,720,089).....
5. Risk revenue.....	XXX.....	4,405,890.....	3,930,513.....
6. Aggregate write-ins for other health care related revenues.....	XXX.....	127,857.....	57,478.....
7. Aggregate write-ins for other non-health revenues.....	XXX.....	0.....	0.....
8. Total revenues (Lines 2 to 7).....	XXX.....	2,141,451,384.....	2,151,856,958.....
Hospital and Medical:			
9. Hospital/medical benefits.....	9,709,028.....	1,295,118,998.....	1,284,097,817.....
10. Other professional services.....	343,080.....	50,758,271.....	51,006,325.....
11. Outside referrals.....	63,209,644.....	63,209,644.....	60,005,229.....
12. Emergency room and out-of-area.....	1,697,632.....	128,464,888.....	122,467,328.....
13. Prescription drugs.....	.....	285,676,680.....	295,827,683.....
14. Aggregate write-ins for other hospital and medical.....	0.....	2,621,110.....	2,765,981.....
15. Incentive pool, withhold adjustments and bonus amounts.....	.....	34,751,955.....	57,420,241.....
16. Subtotal (Lines 9 to 15).....	74,959,384.....	1,860,601,546.....	1,873,590,604.....
Less:			
17. Net reinsurance recoveries.....	.....	12,820,548.....	13,034,942.....
18. Total hospital and medical (Lines 16 minus 17).....	74,959,384.....	1,847,780,998.....	1,860,555,662.....
19. Non-health claims (net).....	.....	.....	.....
20. Claims adjustment expenses, including \$.....51,368,453 cost containment expenses.....	.....	76,492,030.....	88,186,400.....
21. General administrative expenses.....	.....	164,185,796.....	186,850,646.....
22. Increase in reserves for life and accident and health contracts including \$.....0 increase in reserves for life only).....	.....	.....	.....
23. Total underwriting deductions (Lines 18 through 22).....	74,959,384.....	2,088,458,824.....	2,135,592,708.....
24. Net underwriting gain or (loss) (Lines 8 minus 23).....	XXX.....	52,992,560.....	16,264,250.....
25. Net investment income earned (Exhibit of Net Investment Income, Line 17).....	.....	32,599,963.....	33,188,030.....
26. Net realized capital gains or (losses) less capital gains tax of \$.....0.....	.....	182,153.....	482,137.....
27. Net investment gains or (losses) (Lines 25 plus 26).....	0.....	32,782,116.....	33,670,167.....
28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$.....109,985) (amount charged off \$.....221,361)].....	.....	(111,376).....	(56,102).....
29. Aggregate write-ins for other income or expenses.....	0.....	118,350.....	0.....
30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29).....	XXX.....	85,781,650.....	49,878,315.....
31. Federal and foreign income taxes incurred.....	XXX.....	191,383.....	31,475.....
32. Net income (loss) (Lines 30 minus 31).....	XXX.....	85,590,267.....	49,846,840.....
DETAILS OF WRITE-INS			
0601. Other Revenue.....	XXX.....	98,436.....	25,506.....
0602. Pharmacy over the Counter.....	XXX.....	29,421.....	31,972.....
0603.	XXX.....	.....	.....
0698. Summary of remaining write-ins for Line 6 from overflow page.....	XXX.....	0.....	0.....
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above).....	XXX.....	127,857.....	57,478.....
0701.	XXX.....	.....	.....
0702.	XXX.....	.....	.....
0703.	XXX.....	.....	.....
0798. Summary of remaining write-ins for Line 7 from overflow page.....	XXX.....	0.....	0.....
0799. Totals (Lines 0701 thru 0703 plus 0798) (Line 7 above).....	XXX.....	0.....	0.....
1401. Other Medical Expense.....	.....	1,722,969.....	1,882,040.....
1402. Occupancy, Depreciation and Amortization.....	.....	898,141.....	883,941.....
1403. ....	.....	.....	.....
1498. Summary of remaining write-ins for Line 14 from overflow page.....	0.....	0.....	0.....
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above).....	0.....	2,621,110.....	2,765,981.....
2901. Regulatory Fee.....	.....	(2,650).....	.....
2902. Other revenue.....	.....	121,000.....	.....
2903. ....	.....	.....	.....
2998. Summary of remaining write-ins for Line 29 from overflow page.....	0.....	0.....	0.....
2999. Totals (Lines 2901 thru 2903 plus 2998) (Line 29 above).....	0.....	118,350.....	0.....

Blue Care Network of Michigan
STATEMENT OF REVENUE AND EXPENSES (Continued)

CAPITAL AND SURPLUS ACCOUNT	1 Current Year	2 Prior Year
33. Capital and surplus prior reporting period.....	.....244,109,720	.....194,735,640
34. Net income or (loss) from Line 32.....	.....85,590,267	.....49,846,840
35. Change in valuation basis of aggregate policy and claim reserves.....	.....	.....
36. Change in net unrealized capital gains and (losses) less capital gains tax of \$.....0.....	.....2,393,819	.....3,496,443
37. Change in net unrealized foreign exchange capital gain or (loss).....	.....	.....
38. Change in net deferred income tax.....	.....	.....
39. Change in nonadmitted assets.....	.....4,646,017	.....(3,969,203)
40. Change in unauthorized reinsurance.....	.....	.....
41. Change in treasury stock.....	.....	.....
42. Change in surplus notes.....	.....	.....
43. Cumulative effect of changes in accounting principles.....	.....	.....
44. Capital changes:		
44.1 Paid in.....	.....	.....
44.2 Transferred from surplus (Stock Dividend).....	.....	.....
44.3 Transferred to surplus.....	.....	.....
45. Surplus adjustments:		
45.1 Paid in.....	.....	.....
45.2 Transferred to capital (Stock Dividend).....	.....	.....
45.3 Transferred from capital.....	.....	.....
46. Dividends to stockholders.....	.....	.....
47. Aggregate write-ins for gains or (losses) in surplus.....	.....0	.....0
48. Net change in capital and surplus (Lines 34 to 47).....	.....92,630,103	.....49,374,080
49. Capital and surplus end of reporting period (Line 33 plus 48).....	.....336,739,823	.....244,109,720

DETAILS OF WRITE-INS		
4701. Prior period Adjustment Premium Bad Debt.....	.....	.....
4702. ....	.....	.....
4703. ....	.....	.....
4798. Summary of remaining write-ins for Line 47 from overflow page.....	.....0	.....0
4799. Totals (Lines 4701 thru 4703 plus 4798) (Line 47 above).....	.....0	.....0

CASH FLOW

	1 Current Year	2 Prior Year
CASH FROM OPERATIONS		
1. Premiums collected net of reinsurance.....	2,124,239,714	2,149,977,446
2. Net investment income.....	30,965,768	31,576,058
3. Miscellaneous income.....	1,159,728	2,267,902
4. Total (Lines 1 through 3).....	2,156,365,210	2,183,821,406
5. Benefit and loss related payments.....	1,871,052,650	1,827,128,210
6. Net transfers to Separate Accounts, Segregated Accounts and Protected Cell Accounts.....		
7. Commissions, expenses paid and aggregate write-ins for deductions.....	246,754,981	257,583,481
8. Dividends paid to policyholders.....		
9. Federal and foreign income taxes paid (recovered) net of \$.....0 tax on capital gains (losses).....	191,383	31,475
10. Total (Lines 5 through 9).....	2,117,999,014	2,084,743,166
11. Net cash from operations (Line 4 minus Line 10).....	38,366,196	99,078,240
CASH FROM INVESTMENTS		
12. Proceeds from investments sold, matured or repaid:		
12.1 Bonds.....	64,981,799	229,222,791
12.2 Stocks.....	1,217,466	1,628,948
12.3 Mortgage loans.....		
12.4 Real estate.....		
12.5 Other invested assets.....		3,700,106
12.6 Net gains or (losses) on cash, cash equivalents and short-term investments.....	(59,716)	18,226
12.7 Miscellaneous proceeds.....	9,658,328	
12.8 Total investment proceeds (Lines 12.1 to 12.7).....	75,797,877	234,570,071
13. Cost of investments acquired (long-term only):		
13.1 Bonds.....	104,658,117	329,187,627
13.2 Stocks.....	153,441	9,479,481
13.3 Mortgage loans.....		
13.4 Real estate.....		
13.5 Other invested assets.....		1,500,000
13.6 Miscellaneous applications.....	4,686,079	
13.7 Total investments acquired (Lines 13.1 to 13.6).....	109,497,637	340,167,108
14. Net increase (decrease) in contract loans and premium notes.....		
15. Net cash from investments (Line 12.8 minus Lines 13.7 minus Line 14).....	(33,699,760)	(105,597,037)
CASH FROM FINANCING AND MISCELLANEOUS SOURCES		
16. Cash provided (applied):		
16.1 Surplus notes, capital notes.....		
16.2 Capital and paid in surplus, less treasury stock.....		
16.3 Borrowed funds.....		
16.4 Net deposits on deposit-type contracts and other insurance liabilities.....		
16.5 Dividends to stockholders.....		
16.6 Other cash provided (applied).....	12,734,331	(2,716,835)
17. Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6).....	12,734,331	(2,716,835)
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS		
18. Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17).....	17,400,767	(9,235,632)
19. Cash, cash equivalents and short-term investments:		
19.1 Beginning of year.....	515,981,372	525,217,003
19.2 End of year (Line 18 plus Line 19.1).....	533,382,139	515,981,372

Note: Supplemental disclosures of cash flow information for non-cash transactions:

20.0001		
---------	--	--

ANALYSIS OF OPERATION BY LINES OF BUSINESS

	1	2	3	4	5	6	7	8	9	10
	Total	Comprehensive (Hospital and Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plans	Title XVIII Medicare	Title XIX Medicaid	Other Health	Other Non-Health
1. Net premium income.....	2,138,055,960	1,771,123,414	40,648,723			68,341,228	257,942,595			
2. Change in unearned premium reserves and reserve for rate credit.....	2,235,696	212,137	1,722,326			(201,533)	502,766			
3. Fee-for-service (net of \$....9,747,593 medical expenses).....	(3,374,019)								(3,374,019)	XXX
4. Risk revenue.....	4,405,890	4,405,890								XXX
5. Aggregate write-ins for other health care related revenues.....	127,857	0	0	0	0	0	0	0	127,857	XXX
6. Aggregate write-ins for other non-health care related revenues.....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
7. Total revenues (Lines 1 to 6).....	2,141,451,384	1,775,741,441	42,371,049	0	0	68,139,695	258,445,361	0	(3,246,162)	0
8. Hospital/medical benefits.....	1,295,118,998	1,048,152,194	14,339,844			43,748,252	188,878,708			XXX
9. Other professional services.....	50,758,271	41,289,588	1,173,165			1,723,364	6,572,154			XXX
10. Outside referrals.....	63,209,644	52,050,249	793,195			2,172,497	8,193,703			XXX
11. Emergency room and out-of-area.....	128,464,888	115,404,022	630,005			4,346,391	8,084,470			XXX
12. Prescription drugs.....	285,676,680	223,425,476	17,015,259			9,325,434	35,910,511			XXX
13. Aggregate write-ins for other hospital and medical.....	2,621,110	1,766,888	307,478	0	0	73,706	440,095	0	32,943	XXX
14. Incentive pool, withhold adjustments and bonus amounts.....	34,751,955	32,690,889				1,364,467	696,599			XXX
15. Subtotal (Lines 8 to 14).....	1,860,601,546	1,514,779,306	34,258,946	0	0	62,754,111	248,776,240	0	32,943	XXX
16. Net reinsurance recoveries.....	12,820,548	12,435,950				515,737	(131,139)			XXX
17. Total hospital and medical (Lines 15 minus 16).....	1,847,780,998	1,502,343,356	34,258,946	0	0	62,238,374	248,907,379	0	32,943	XXX
18. Non-health claims (net).....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
19. Claims adjustment expenses including \$....51,368,453 cost containment expenses.....	76,492,030	66,953,200	1,560,740			2,773,243	5,204,847			
20. General administrative expenses.....	164,185,796	139,686,293	3,312,997			5,359,235	15,354,832		472,439	
21. Increase in reserves for accident and health contracts.....	0									XXX
22. Increase in reserve for life contracts.....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
23. Total underwriting deductions (Lines 17 to 22).....	2,088,458,824	1,708,982,849	39,132,683	0	0	70,370,852	269,467,058	0	505,382	0
24. Net underwriting gain or (loss) (Line 7 minus Line 23).....	52,992,560	66,758,592	3,238,366	0	0	(2,231,157)	(11,021,697)	0	(3,751,544)	0

DETAILS OF WRITE-INS

0501. Other Revenue.....	98,436								98,436	XXX
0502. Pharmacy over the Counter.....	29,421								29,421	XXX
0503.	0									XXX
0598. Summary of remaining write-ins for Line 5 from overflow page.....	0	0	0	0	0	0	0	0	0	XXX
0599. Total (Lines 0501 thru 0503 plus 0598) (Line 5 above).....	127,857	0	0	0	0	0	0	0	127,857	XXX
0601.	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0602.	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0603.	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0698. Summary of remaining write-ins for Line 6 from overflow page.....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
0699. Total (Lines 0601 thru 0603 plus 0698) (Line 6 above).....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
1301. Other Medical	1,722,969	1,141,065	200,682			48,450	299,829		32,943	XXX
1302. Occupancy and Depreciation.....	898,141	625,823	106,796			25,256	140,266			XXX
1303.	0									XXX
1398. Summary of remaining write-ins for Line 13 from overflow page.....	0	0	0	0	0	0	0	0	0	XXX
1399. Total (Lines 1301 thru 1303 plus 1398) (Line 13 above).....	2,621,110	1,766,888	307,478	0	0	73,706	440,095	0	32,943	XXX

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 - PREMIUMS

		1	2	3	4
Line of Business		Direct Business	Reinsurance Assumed	Reinsurance Ceded	Net Premium Income (Cols. 1 + 2 - 3)
1.	Comprehensive (hospital and medical).....	1,781,585,642		10,462,228	1,771,123,414
2.	Medicare supplement.....	40,648,723			40,648,723
3.	Dental only.....				0
4.	Vision only.....				0
5.	Federal employees health benefits plan.....	68,742,624		401,396	68,341,228
6.	Title XVIII - Medicare.....	259,182,975		1,240,380	257,942,595
7.	Title XIX - Medicaid.....				0
8.	Other health.....				0
9.	Health subtotal (Lines 1 through 8).....	2,150,159,964	0	12,104,004	2,138,055,960
10.	Life.....				0
11.	Property/casualty.....				0
12.	Totals (Lines 9 to 11).....	2,150,159,964	0	12,104,004	2,138,055,960

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2 - CLAIMS INCURRED DURING THE YEAR

	1	2	3	4	5	6	7	8	9	10
	Total	Comprehensive (Hospital and Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Other Health	Other Non-Health
1. Payments during the year:										
1.1 Direct.....	1,824,321,042	1,501,933,836	39,375,632			60,448,138	222,530,493		32,943	
1.2 Reinsurance assumed.....	0									
1.3 Reinsurance ceded.....	17,306,385	16,129,927				649,885	526,573			
1.4 Net.....	1,807,014,657	1,485,803,909	39,375,632	0	0	59,798,253	222,003,920	0	32,943	0
2. Paid medical incentive pools and bonuses.....	61,986,756	59,299,258				2,433,788	253,710			
3. Claim liability December 31, current year from Part 2A:										
3.1 Direct.....	290,607,509	235,226,379	4,432,641			8,846,245	42,102,244			
3.2 Reinsurance assumed.....	0									
3.3 Reinsurance ceded.....	5,034,598	4,474,119				216,371	344,108			
3.4 Net.....	285,572,911	230,752,260	4,432,641	0	0	8,629,874	41,758,136	0	0	0
4. Claim reserve December 31, current year from Part 2D:										
4.1 Direct.....	0									
4.2 Reinsurance assumed.....	0									
4.3 Reinsurance ceded.....	0									
4.4 Net.....	0	0	0	0	0	0	0	0	0	0
5. Accrued medical incentive pools and bonuses, current year.....	45,355,558	43,090,400				1,051,716	1,213,442			
6. Net healthcare receivables (a).....	(2,051,237)	(2,051,237)								
7. Amounts recoverable from reinsurers December 31, current year.....	0									
8. Claim liability December 31, prior year from Part 2A:										
8.1 Direct.....	291,130,197	257,123,034	9,549,326			7,904,741	16,553,096			
8.2 Reinsurance assumed.....	0									
8.3 Reinsurance ceded.....	9,520,435	8,168,096				350,519	1,001,820			
8.4 Net.....	281,609,762	248,954,938	9,549,326	0	0	7,554,222	15,551,276	0	0	0
9. Claim reserve December 31, prior year from Part 2D:										
9.1 Direct.....	0									
9.2 Reinsurance assumed.....	0									
9.3 Reinsurance ceded.....	0									
9.4 Net.....	0	0	0	0	0	0	0	0	0	0
10. Accrued medical incentive pools and bonuses, prior year.....	72,590,359	69,698,769				2,121,037	770,553			
11. Amounts recoverable from reinsurers December 31, prior year.....	0									
12. Incurred benefits:										
12.1 Direct.....	1,825,849,591	1,482,088,418	34,258,947	0	0	61,389,642	248,079,641	0	32,943	0
12.2 Reinsurance assumed.....	0	0	0	0	0	0	0	0	0	0
12.3 Reinsurance ceded.....	12,820,548	12,435,950	0	0	0	515,737	(131,139)	0	0	0
12.4 Net.....	1,813,029,043	1,469,652,468	34,258,947	0	0	60,873,905	248,210,780	0	32,943	0
13. Incurred medical incentive pools and bonuses.....	34,751,955	32,690,889	0	0	0	1,364,467	696,599	0	0	0

(a) Excludes \$.00 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2A - CLAIMS LIABILITY END OF CURRENT YEAR

	1	2	3	4	5	6	7	8	9	10
	Total	Comprehensive (Medical and Hospital)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Other Health	Other Non-Health
1. Reported in process of adjustment:										
1.1 Direct.....	32,470,211	26,236,993	504,000			981,234	4,747,984			
1.2 Reinsurance assumed.....	0									
1.3 Reinsurance ceded.....	0									
1.4 Net.....	32,470,211	26,236,993	504,000	0	0	981,234	4,747,984	0	0	0
2. Incurred but unreported:										
2.1 Direct.....	246,305,052	197,157,140	3,928,641			7,865,011	37,354,260			
2.2 Reinsurance assumed.....	0									
2.3 Reinsurance ceded.....	5,034,598	4,474,119				216,371	344,108			
2.4 Net.....	241,270,454	192,683,021	3,928,641	0	0	7,648,640	37,010,152	0	0	0
3. Amounts withheld from paid claims and capitations:										
3.1 Direct.....	11,832,246	11,832,246								
3.2 Reinsurance assumed.....	0									
3.3 Reinsurance ceded.....	0									
3.4 Net.....	11,832,246	11,832,246	0	0	0	0	0	0	0	0
4. Totals:										
4.1 Direct.....	290,607,509	235,226,379	4,432,641	0	0	8,846,245	42,102,244	0	0	0
4.2 Reinsurance assumed.....	0	0	0	0	0	0	0	0	0	0
4.3 Reinsurance ceded.....	5,034,598	4,474,119	0	0	0	216,371	344,108	0	0	0
4.4 Net.....	285,572,911	230,752,260	4,432,641	0	0	8,629,874	41,758,136	0	0	0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2B - ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE

Line of Business	Claims Paid During the Year		Claim Reserve and Claim Liability December 31 of Current Year		5	6
	1 On Claims Incurred Prior to January 1 of Current Year	2 On Claims Incurred During the Year	3 On Claims Unpaid December 31 of Prior Year	4 On Claims Incurred During the Year	Claims Incurred in Prior Years (Columns 1 + 3)	Estimated Claim Reserve and Claim Liability December 31 of Prior Year
1. Comprehensive (hospital and medical).....	225,378,128	1,260,425,780	6,933,793	223,818,467	232,311,921	248,954,938
2. Medicare supplement.....	7,664,694	31,710,937	283,506	4,149,134	7,948,200	9,549,326
3. Dental only.....					0	
4. Vision only.....					0	
5. Federal employees health benefits plan.....	3,561,886	56,236,368	99,106	8,530,769	3,660,992	7,554,222
6. Title XVIII - Medicare.....	13,939,943	208,063,978	594,317	41,163,819	14,534,260	15,551,276
7. Title XIX - Medicaid.....					0	
8. Other health.....		32,943			0	
9. Health subtotal (Lines 1 to 8).....	250,544,651	1,556,470,006	7,910,722	277,662,189	258,455,373	281,609,762
10. Healthcare receivables (a).....		9,652,055			0	11,703,292
11. Other non-health.....					0	
12. Medical incentive pools and bonus amounts.....	55,265,436	6,721,320	3,602,042	41,753,516	58,867,478	72,590,359
13. Totals (Lines 9 - 10 + 11 + 12).....	305,810,087	1,553,539,271	11,512,764	319,415,705	317,322,851	342,496,829

(a) Excludes \$.00 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - GRAND TOTAL

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	.....295,001	.....241,359	.....241,636	.....241,560	.....241,583
2. 2004.....	.....1,254,913	.....1,477,442	.....1,482,943	.....1,483,133	.....1,483,199
3. 2005.....	.....XXX	.....1,347,415	.....1,579,456	.....1,580,790	.....1,580,862
4. 2006.....	.....XXX	.....XXX	.....1,477,904	.....1,737,407	.....1,737,569
5. 2007.....	.....XXX	.....XXX	.....XXX	.....1,555,242	.....1,860,731
6. 2008.....	.....XXX	.....XXX	.....XXX	.....XXX	.....1,553,539

SECTION B - INCURRED HEALTH CLAIMS - GRAND TOTAL

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	.....256,878	.....241,713	.....241,699	.....241,560	.....241,583
2. 2004.....	.....1,551,598	.....1,499,704	.....1,484,043	.....1,483,382	.....1,483,199
3. 2005.....	.....XXX	.....1,617,507	.....1,596,073	.....1,583,045	.....1,580,928
4. 2006.....	.....XXX	.....XXX	.....1,780,894	.....1,754,062	.....1,737,908
5. 2007.....	.....XXX	.....XXX	.....XXX	.....1,890,284	.....1,871,839
6. 2008.....	.....XXX	.....XXX	.....XXX	.....XXX	.....1,872,955

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - GRAND TOTAL

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expense	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2004.....	.....1,837,586	.....1,483,199	.....85,054	.....5.7	.....1,568,253	.....85.3			.....1,568,253	.....85.3
2. 2005.....	.....1,900,142	.....1,580,862	.....71,414	.....4.5	.....1,652,276	.....87.0	.....68		.....1,652,344	.....87.0
3. 2006.....	.....2,032,800	.....1,737,569	.....78,606	.....4.5	.....1,816,175	.....89.3	.....345		.....1,816,520	.....89.4
4. 2007.....	.....2,149,589	.....1,860,731	.....82,274	.....4.4	.....1,943,005	.....90.4	.....11,100	.....866	.....1,954,971	.....90.9
5. 2008.....	.....2,140,292	.....1,553,539	.....69,583	.....4.5	.....1,623,122	.....75.8	.....319,416	.....5,413	.....1,947,951	.....91.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - HOSPITAL AND MEDICAL

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	.....218,502	.....221,239	.....221,640	.....221,631	.....221,656
2. 2004.....	.....1,160,138	.....1,369,712	.....1,374,891	.....1,375,057	.....1,375,100
3. 2005.....	.....XXX	.....1,239,309	.....1,454,135	.....1,455,191	.....1,455,263
4. 2006.....	.....XXX	.....XXX	.....1,322,048	.....1,554,753	.....1,554,680
5. 2007.....	.....XXX	.....XXX	.....XXX	.....1,369,051	.....1,647,232
6. 2008.....	.....XXX	.....XXX	.....XXX	.....XXX	.....1,257,204

SECTION B - INCURRED HEALTH CLAIMS - HOSPITAL AND MEDICAL

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	.....236,223	.....221,571	.....221,700	.....221,631	.....221,656
2. 2004.....	.....1,439,743	.....1,391,049	.....1,375,920	.....1,375,304	.....1,375,100
3. 2005.....	.....XXX	.....1,490,572	.....1,469,775	.....1,457,412	.....1,455,328
4. 2006.....	.....XXX	.....XXX	.....1,593,626	.....1,569,927	.....1,555,016
5. 2007.....	.....XXX	.....XXX	.....XXX	.....1,670,063	.....1,657,187
6. 2008.....	.....XXX	.....XXX	.....XXX	.....XXX	.....1,520,691

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - HOSPITAL AND MEDICAL

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2004.....	.....1,696,371	.....1,375,100	.....77,438	.....5.6	.....1,452,538	.....85.6			.....1,452,538	.....85.6
2. 2005.....	.....1,745,443	.....1,455,263	.....64,412	.....4.4	.....1,519,675	.....87.1	.....65		.....1,519,740	.....87.1
3. 2006.....	.....1,832,423	.....1,554,680	.....69,465	.....4.5	.....1,624,145	.....88.6	.....336		.....1,624,481	.....88.7
4. 2007.....	.....1,898,915	.....1,647,232	.....72,586	.....4.4	.....1,719,818	.....90.6	.....9,955	.....721	.....1,730,494	.....91.1
5. 2008.....	.....1,771,336	.....1,257,204	.....61,039	.....4.9	.....1,318,243	.....74.4	.....263,487	.....4,454	.....1,586,184	.....89.5

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - MEDICARE SUPPLEMENT

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	8,921	9,125	8,991	8,922	8,920
2. 2004.....	57,255	64,307	64,491	64,510	64,520
3. 2005.....	.XXX	63,240	72,418	72,661	72,657
4. 2006.....	.XXX	.XXX	65,567	76,867	76,893
5. 2007.....	.XXX	.XXX	.XXX	66,432	74,067
6. 2008.....	.XXX	.XXX	.XXX	.XXX	31,711

SECTION B - INCURRED HEALTH CLAIMS - MEDICARE SUPPLEMENT

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	9,197	9,127	8,991	8,922	8,920
2. 2004.....	66,294	64,436	64,511	64,510	64,520
3. 2005.....	.XXX	72,651	72,777	72,665	72,658
4. 2006.....	.XXX	.XXX	77,401	76,994	76,896
5. 2007.....	.XXX	.XXX	.XXX	75,850	74,347
6. 2008.....	.XXX	.XXX	.XXX	.XXX	35,860

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - MEDICARE SUPPLEMENT

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2004.....	77,503	64,520	4,752	7.4	69,272	89.4			69,272	89.4
2. 2005.....	83,083	72,657	4,329	6.0	76,986	92.7	1		76,987	92.7
3. 2006.....	86,073	76,893	4,010	5.2	80,903	94.0	3		80,906	94.0
4. 2007.....	87,718	74,067	3,368	4.5	77,435	88.3	279	24	77,738	88.6
5. 2008.....	42,371	31,711	1,428	4.5	33,139	78.2	4,149	104	37,392	88.2

**U & I Ex.-Pt.2C-Sn A-Paid Claims-Dental
NONE**

**U & I Ex.-Pt.2C-Sn B-Incurred Claims-Dental
NONE**

**U & I Ex.-Pt.2C-Sn C-Expense Ratio-Dental
NONE**

**U & I Ex.-Pt.2C-Sn A-Paid Claims-Vision
NONE**

**U & I Ex.-Pt.2C-Sn B-Incurred Claims-Vision
NONE**

**U & I Ex.-Pt.2C-Sn C-Expense Ratio-Vision
NONE**

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	62,232	5,627	5,637	5,639	5,639
2. 2004.....	37,485	43,388	43,526	43,531	43,544
3. 2005.....	XXX	44,836	52,873	52,908	52,912
4. 2006.....	XXX	XXX	61,983	71,291	71,301
5. 2007.....	XXX	XXX	XXX	57,857	63,563
6. 2008.....	XXX	XXX	XXX	XXX	56,500

SECTION B - INCURRED HEALTH CLAIMS - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	6,048	5,647	5,640	5,639	5,639
2. 2004.....	45,526	44,184	43,577	43,533	43,544
3. 2005.....	XXX	54,254	53,491	52,938	52,912
4. 2006.....	XXX	XXX	74,399	71,893	71,301
5. 2007.....	XXX	XXX	XXX	66,899	63,745
6. 2008.....	XXX	XXX	XXX	XXX	65,999

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2004.....	63,712	43,544	2,864	6.6	46,408	72.8			46,408	72.8
2. 2005.....	71,616	52,912	2,673	5.1	55,585	77.6	2		55,587	77.6
3. 2006.....	77,588	71,301	2,984	4.2	74,285	95.7	6		74,291	95.8
4. 2007.....	71,597	63,563	2,999	4.7	66,562	93.0	175	26	66,763	93.2
5. 2008.....	68,140	56,500	2,561	4.5	59,061	86.7	9,499	187	68,747	100.9

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - TITLE XVIII - MEDICARE

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	5,346	5,368	5,368	5,368	5,368
2. 2004.....					
3. 2005.....	XXX				
4. 2006.....	XXX	XXX	28,275	34,465	34,664
5. 2007.....	XXX	XXX	XXX	61,863	75,830
6. 2008.....	XXX	XXX	XXX	XXX	208,091

SECTION B - INCURRED HEALTH CLAIMS - TITLE XVIII - MEDICARE

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	5,410	5,368	5,368	5,368	5,368
2. 2004.....					
3. 2005.....	XXX				
4. 2006.....	XXX	XXX	35,437	35,217	34,664
5. 2007.....	XXX	XXX	XXX	77,433	76,521
6. 2008.....	XXX	XXX	XXX	XXX	250,372

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - TITLE XVIII - MEDICARE

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2004.....				0.0	0	0.0			0	0.0
2. 2005.....				0.0	0	0.0			0	0.0
3. 2006.....	36,716	34,664	2,147	6.2	36,811	100.3			36,811	100.3
4. 2007.....	91,359	75,830	3,321	4.4	79,151	86.6	691	95	79,937	87.5
5. 2008.....	258,445	208,091	4,555	2.2	212,646	82.3	42,281	668	255,595	98.9

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - TITLE XIX - MEDICAID

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	NONE				
2. 2004.....					
3. 2005.....		XXX			
4. 2006.....		XXX	XXX		
5. 2007.....		XXX	XXX	XXX	
6. 2008.....		XXX	XXX	XXX	XXX

SECTION B - INCURRED HEALTH CLAIMS - TITLE XIX - MEDICAID

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....	NONE				
2. 2004.....					
3. 2005.....		XXX			
4. 2006.....		XXX	XXX		
5. 2007.....		XXX	XXX	XXX	
6. 2008.....		XXX	XXX	XXX	XXX

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - TITLE XIX - MEDICAID

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2004.....				0.0	0	0.0			0	0.0
2. 2005.....				0.0	0	0.0			0	0.0
3. 2006.....				0.0		0.0			0	0.0
4. 2007.....				0.0	0	0.0			0	0.0
5. 2008.....				0.0	0	0.0			0	0.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS

(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - OTHER

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....					
2. 2004.....	35	35	35	35	35
3. 2005.....	XXX	30	30	30	30
4. 2006.....	XXX	XXX	31	31	31
5. 2007.....	XXX	XXX	XXX	39	39
6. 2008.....	XXX	XXX	XXX	XXX	33

SECTION B - INCURRED HEALTH CLAIMS - OTHER

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2004	2 2005	3 2006	4 2007	5 2008
1. Prior.....					
2. 2004.....	35	35	35	35	35
3. 2005.....	XXX	30	30	30	30
4. 2006.....	XXX	XXX	31	31	31
5. 2007.....	XXX	XXX	XXX	39	39
6. 2008.....	XXX	XXX	XXX	XXX	33

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - OTHER

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2004.....		35		0.0	35	0.0			35	0.0
2. 2005.....		30		0.0	30	0.0			30	0.0
3. 2006.....		31		0.0	31	0.0			31	0.0
4. 2007.....		39		0.0	39	0.0			39	0.0
5. 2008.....		33		0.0	33	0.0			33	0.0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2D - AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS ONLY

	1	2	3	4	5	6	7	8	9
	Total	Comprehensive (Hospital and Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Other
POLICY RESERVE									
1. Unearned premium reserves.....	1,859,704	1,859,704							
2. Additional policy reserves (a).....	0								
3. Reserve for future contingent benefits.....	0								
4. Reserve for rate credits or experience rating refunds (including \$.....0) for investment income.....	1,621,788					1,249,896	371,892		
5. Aggregate write-ins for other policy reserves.....	0	0	0	0	0	0	0	0	0
6. Totals (gross).....	3,481,492	1,859,704	0	0	0	1,249,896	371,892	0	0
7. Reinsurance ceded.....	0								
8. Totals (net) (Page 3, Line 4).....	3,481,492	1,859,704	0	0	0	1,249,896	371,892	0	0
CLAIM RESERVE									
9. Present value of amounts not yet due on claims.....	0								
10. Reserve for future contingent benefits.....	0								
11. Aggregate write-ins for other claim reserves.....	0	0	0	0	0	0	0	0	0
12. Totals (gross).....	0	0	0	0	0	0	0	0	0
13. Reinsurance ceded.....	0								
14. Totals (net) (Page 3, Line 7).....	0	0	0	0	0	0	0	0	0
DETAILS OF WRITE-INS									
0501.	0								
0502.	0								
0503.	0								
0598. Summary of remaining write-ins for Line 5 from overflow page.....	0	0	0	0	0	0	0	0	0
0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above).....	0	0	0	0	0	0	0	0	0
1101.	0								
1102.	0								
1103.	0								
1198. Summary of remaining write-ins for Line 11 from overflow page.....	0	0	0	0	0	0	0	0	0
1199. Totals (Lines 1101 thru 1103 plus 1198) (Line 11 above).....	0	0	0	0	0	0	0	0	0

(a) Includes \$.....0 premium deficiency reserve.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - ANALYSIS OF EXPENSES

	Claim Adjustment Expenses		3 General Administrative Expenses	4 Investment Expenses	5 Total
	1 Cost Containment Expenses	2 Other Claim Adjustment Expenses			
1. Rent (\$.....0 for occupancy of own building).....	2,108,493	1,327,609	4,218,303		7,654,405
2. Salaries, wages and other benefits.....	28,991,254	13,850,810	47,872,281	204,285	90,918,630
3. Commissions (less \$.....0 ceded plus \$.....0 assumed).....			51,579,404		51,579,404
4. Legal fees and expenses.....			96,458		96,458
5. Certifications and accreditation fees.....	176,639				176,639
6. Auditing, actuarial and other consulting services.....	805,940	49,440	2,069,671	41,609	2,966,660
7. Traveling expenses.....	590,703	100,010	1,479,158	3,794	2,173,665
8. Marketing and advertising.....	137,673	963,242	2,648,272		3,749,187
9. Postage, express and telephone.....	62,632	556,950	3,143,147	511	3,763,240
10. Printing and office supplies.....	729,673	509,735	3,947,816	6,209	5,193,433
11. Occupancy, depreciation and amortization.....	914,807	501,974	2,649,406	17,610	4,083,797
12. Equipment.....	152,378	88,607	266,643		507,628
13. Cost or depreciation of EDP equipment and software.....	3,433,322	560,250	14,574,782	26,129	18,594,483
14. Outsourced services including EDP, claims, and other services.....	10,509,238	5,560,514	23,117,166	29,422	39,216,340
15. Boards, bureaus and association fees.....	263,632	5,184	1,087,658	7,090	1,363,564
16. Insurance, except on real estate.....	17,061	10,872	381,597		409,530
17. Collection and bank service charges.....				274,174	274,174
18. Group service and administration fees.....					0
19. Reimbursements by uninsured plans.....					0
20. Reimbursements from fiscal intermediaries.....					0
21. Real estate expenses.....					0
22. Real estate taxes.....					0
23. Taxes, licenses and fees:					
23.1 State and local insurance taxes.....			24,000		24,000
23.2 State premium taxes.....					0
23.3 Regulatory authority licenses and fees.....			428,961		428,961
23.4 Payroll taxes.....	1,926,919	1,005,635	3,861,171		6,793,725
23.5 Other (excluding federal income and real estate taxes).....					0
24. Investment expenses not included elsewhere.....					0
25. Aggregate write-ins for expenses.....	548,089	32,745	739,902	0	1,320,736
26. Total expenses incurred (Lines 1 to 25).....	51,368,453	25,123,577	164,185,796	610,833	(a)...241,288,659
27. Less expenses unpaid December 31, current year.....	4,216,822	2,062,388	35,037,296		41,316,506
28. Add expenses unpaid December 31, prior year.....	7,191,939	3,387,919	39,807,245		50,387,103
29. Amounts receivable relating to uninsured plans, prior year.....					0
30. Amounts receivable relating to uninsured plans, current year.....					0
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30).....	54,343,570	26,449,108	168,955,745	610,833	250,359,256

DETAILS OF WRITE-INS

2501. Other expenses.....	548,089	32,745	739,902		1,320,736
2502.					0
2503.					0
2598. Summary of remaining write-ins for Line 25 from overflow page.....	0	0	0	0	0
2599. TOTALS (Lines 2501 thru 2503 plus 2598) (Line 25 above).....	548,089	32,745	739,902	0	1,320,736

(a) Includes management fees of \$.....30,381,804 to affiliates and \$.....0 to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. government bonds.....	(a).....802,027	.....680,632
1.1 Bonds exempt from U.S. tax.....	(a).....	.....
1.2 Other bonds (unaffiliated).....	(a).....8,236,916	.....8,849,655
1.3 Bonds of affiliates.....	(a).....	.....
2.1 Preferred stocks (unaffiliated).....	(b).....	.....
2.11 Preferred stocks of affiliates.....	(b).....	.....
2.2 Common stocks (unaffiliated).....	.....17,983	.....17,983
2.21 Common stocks of affiliates.....	.....	.....
3. Mortgage loans.....	(c).....	.....
4. Real estate.....	(d).....	.....
5. Contract loans.....	.....	.....
6. Cash, cash equivalents and short-term investments.....	(e).....22,467,748	.....23,662,526
7. Derivative instruments.....	(f).....	.....
8. Other invested assets.....	.....	.....
9. Aggregate write-ins for investment income.....	.....0	.....0
10. Total gross investment income.....	.....31,524,674	.....33,210,796
11. Investment expenses.....	.....	(g).....610,833
12. Investment taxes, licenses and fees, excluding federal income taxes.....	.....	(g).....
13. Interest expense.....	.....	(h).....
14. Depreciation on real estate and other invested assets.....	.....	(i).....0
15. Aggregate write-ins for deductions from investment income.....	.....	.....0
16. Total deductions (Lines 11 through 15).....	.....	.....610,833
17. Net investment income (Line 10 minus Line 16).....	.....	.....32,599,963

DETAILS OF WRITE-INS

0901. ....	.....	.....
0902. ....	.....	.....
0903. ....	.....	.....
0998. Summary of remaining write-ins for Line 9 from overflow page.....	.....0	.....0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	.....0	.....0
1501. ....	.....	.....
1502. ....	.....	.....
1503. ....	.....	.....
1598. Summary of remaining write-ins for Line 15 from overflow page.....	.....	.....0
1599. Totals (Lines 1501 thru 1503 plus 1598) (Line 15 above).....	.....	.....0
(a) Includes \$.....289,365 accrual of discount less \$.....341,293 amortization of premium and less \$....828,632 paid for accrued interest on purchases.	.....	.....
(b) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued dividends on purchases.	.....	.....
(c) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued interest on purchases.	.....	.....
(d) Includes \$.....0 for company's occupancy of its own buildings; and excludes \$.....0 interest on encumbrances.	.....	.....
(e) Includes \$.....2,314,151 accrual of discount less \$.....5,234,967 amortization of premium and less \$.....5,638,115 paid for accrued interest on purchases.	.....	.....
(f) Includes \$.....0 accrual of discount less \$.....0 amortization of premium.	.....	.....
(g) Includes \$.....0 investment expenses and \$.....0 investment taxes, licenses and fees, excluding federal income taxes, attributable to Segregated and Separate Accounts.	.....	.....
(h) Includes \$.....0 interest on surplus notes and \$.....0 interest on capital notes.	.....	.....
(i) Includes \$.....0 depreciation on real estate and \$.....0 depreciation on other invested assets.	.....	.....

EXHIBIT OF CAPITAL GAINS (LOSSES)

	1 Realized Gain (Loss) on Sales or Maturity	2 Other Realized Adjustments	3 Total Realized Capital Gain (Loss) (Columns 1 + 2)	4 Change in Unrealized Capital Gain (Loss)	5 Change in Unrealized Foreign Exchange Capital Gain (Loss)
1. U.S. government bonds.....	.....1,222,963	.....	.....1,222,963	.....	.....
1.1 Bonds exempt from U.S. tax.....	.....	.....	.....0	.....	.....
1.2 Other bonds (unaffiliated).....	.....(898,954)	.....	.....(898,954)	.....	.....
1.3 Bonds of affiliates.....	.....	.....	.....0	.....	.....
2.1 Preferred stocks (unaffiliated).....	.....	.....	.....0	.....	.....
2.11 Preferred stocks of affiliates.....	.....	.....	.....0	.....	.....
2.2 Common stocks (unaffiliated).....	.....(82,140)	.....	.....(82,140)	.....(213,283)	.....
2.21 Common stocks of affiliates.....	.....	.....	.....0	.....612,484	.....
3. Mortgage loans.....	.....	.....	.....0	.....	.....
4. Real estate.....	.....	.....	.....0	.....	.....
5. Contract loans.....	.....	.....	.....0	.....	.....
6. Cash, cash equivalents and short-term investments.....	.....(59,716)	.....	.....(59,716)	.....	.....
7. Derivative instruments.....	.....	.....	.....0	.....	.....
8. Other invested assets.....	.....	.....	.....0	.....1,994,618	.....
9. Aggregate write-ins for capital gains (losses).....	.....0	.....0	.....0	.....0	.....0
10. Total capital gains (losses).....	.....182,153	.....0	.....182,153	.....2,393,819	.....0

DETAILS OF WRITE-INS

0901. ....	.....	.....	.....0	.....	.....
0902. ....	.....	.....	.....0	.....	.....
0903. ....	.....	.....	.....0	.....	.....
0998. Summary of remaining write-ins for Line 9 from overflow page....	.....0	.....0	.....0	.....0	.....0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	.....0	.....0	.....0	.....0	.....0

EXHIBIT OF NONADMITTED ASSETS

	1 Current Year Total Nonadmitted Assets	2 Prior Year Total Nonadmitted Assets	3 Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D).....			.....0
2. Stocks (Schedule D):			
2.1 Preferred stocks.....			.....0
2.2 Common stocks.....	4,220,342	3,874,760	.....(345,582)
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens.....			.....0
3.2 Other than first liens.....			.....0
4. Real estate (Schedule A):			
4.1 Properties occupied by the company.....			.....0
4.2 Properties held for the production of income.....			.....0
4.3 Properties held for sale.....			.....0
5. Cash (Schedule E-Part 1), cash equivalents (Schedule E-Part 2) and short-term investments (Schedule DA).....			.....0
6. Contract loans.....			.....0
7. Other invested assets (Schedule BA).....			.....0
8. Receivables for securities.....			.....0
9. Aggregate write-ins for invested assets.....	.....0	.....0	.....0
10. Subtotals, cash and invested assets (Lines 1 to 9).....	4,220,342	3,874,760	.....(345,582)
11. Title plants (for Title insurers only).....			.....0
12. Investment income due and accrued.....			.....0
13. Premiums and considerations:			
13.1 Uncollected premiums and agents' balances in the course of collection.....	500,037	29,051	.....(470,986)
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due.....			.....0
13.3 Accrued retrospective premiums.....			.....0
14. Reinsurance:			
14.1 Amounts recoverable from reinsurers.....			.....0
14.2 Funds held by or deposited with reinsured companies.....			.....0
14.3 Other amounts receivable under reinsurance contracts.....			.....0
15. Amounts receivable relating to uninsured plans.....			.....0
16.1 Current federal and foreign income tax recoverable and interest thereon.....			.....0
16.2 Net deferred tax asset.....			.....0
17. Guaranty funds receivable or on deposit.....			.....0
18. Electronic data processing equipment and software.....	9,852,572	7,861,387	.....(1,991,185)
19. Furniture and equipment, including health care delivery assets.....	3,517,645	5,575,786	.....2,058,141
20. Net adjustment in assets and liabilities due to foreign exchange rates.....			.....0
21. Receivables from parent, subsidiaries and affiliates.....	14,965	2,003,485	.....1,988,520
22. Health care and other amounts receivable.....	1,799,630	3,701,044	.....1,901,414
23. Aggregate write-ins for other than invested assets.....	1,301,769	2,807,464	.....1,505,695
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 through 23).....	21,206,960	25,852,977	.....4,646,017
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			.....0
26. TOTALS (Lines 24 and 25).....	21,206,960	25,852,977	.....4,646,017

DETAILS OF WRITE-INS

0901. ....			.....0
0902. ....			.....0
0903. ....			.....0
0998. Summary of remaining write-ins for Line 9 from overflow page.....	.....0	.....0	.....0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	.....0	.....0	.....0
2301. Prepaid expenses.....	1,246,705	1,809,937	.....563,232
2302. Other Accounts Receivable.....	55,064	925,909	.....870,845
2303. Vehicles.....		71,618	.....71,618
2398. Summary of remaining write-ins for Line 23 from overflow page.....	.....0	.....0	.....0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	1,301,769	2,807,464	.....1,505,695

EXHIBIT 1 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

Source of Enrollment	Total Members at End of					6 Current Year Member Months
	1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	
1. Health maintenance organizations.....	612,957	561,645	563,390	561,957	554,666	6,700,008
2. Provider service organizations.....						
3. Preferred provider organizations.....						
4. Point of service.....	13,446					
5. Indemnity only.....						
6. Aggregate write-ins for other lines of business.....	0	0	0	0	0	0
7. Total.....	626,403	561,645	563,390	561,957	554,666	6,700,008

DETAILS OF WRITE-INS

0601.						
0602.						
0603.						
0698. Summary of remaining write-ins for Line 6 from overflow page.....	0	0	0	0	0	0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above).....	0	0	0	0	0	0

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Practices

The financial statements of Blue Care Network of Michigan (BCN) are presented on the basis of accounting practices prescribed or permitted by the Michigan Office of Financial and Insurance Regulation (OFIR).

OFIR recognizes only statutory accounting practices prescribed or permitted by the State of Michigan for determining and reporting the financial condition and results of operations of an insurance company. The National Association of Insurance Commissioner's (NAIC) *Accounting Practices and Procedures Manual*, (NAIC SAP) has been adopted as a component of prescribed or permitted practices by OFIR. OFIR has adopted certain prescribed accounting practices that differ from those found in NAIC SAP. BCN had no permitted practices as of December 31, 2008 and 2007, respectively. BCN had no prescribed practices as of December 2008 and 2007, respectively.

B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements, in conformity with Statutory Accounting Principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

C. Accounting Policy

BCN uses the following accounting policies:

- (1) Short-term investments are stated at amortized cost.
- (2) Bonds not backed by other loans are stated at amortized cost using the scientific interest method.
- (3) Common Stocks are stated at fair value.
- (4) Preferred Stocks – NOT APPLICABLE
- (5) Mortgage loans on real estate – NOT APPLICABLE
- (6) BCN loan-backed securities are stated at amortized cost. Premiums and discounts on loan-backed securities and structured securities are amortized using the retrospective method based on anticipated prepayments at the date of purchase. Prepayment assumptions are obtained from broker dealer survey values or internal estimates. Changes in estimated cash flows from the original purchase assumptions are accounted for using the retrospective method.
- (7) BCN records its investment in certain affiliated grantor trusts, Blue Care Network Medical Malpractice Self-Insurance Trust (Malpractice Trust) and Blue Care Network Stop-Loss and Casualty Self-Insurance Trust (Stop-Loss Trust), as other invested assets using the adjusted audited GAAP equity method.

BCN records its investment in BCN Service Company (BCNSC), a wholly owned subsidiary, using the audited GAAP equity method. Following the guidance of SSAP No. 97 – *Investments in Subsidiary, Controlled and Affiliated Entities, A Replacement of SSAP No. 88*, , BCN's investment in BCN Service Company, has been completely non-admitted at December 31, 2008 and 2007. To admit, a separate financial audit would be required, and management decided to non-admit its investment of \$4,220,342 and \$3,874,760 at December 31, 2008 and 2007, respectively.

BCN records its investment in BlueCaid of Michigan (BlueCaid), a wholly owned subsidiary, using the audited Statutory equity method.

For the investments in Malpractice Trust, Stop-Loss Trust, BCNSC, and BlueCaid, BCN reports the increase or decrease in the investment as a change in unrealized gain or loss for capital and surplus.

- (8) Investments in joint ventures, partnerships and limited liability companies – NOT APPLICABLE
 - (9) Derivatives – NOT APPLICABLE
 - (10) Investment income in premium deficiency calculation – NOT APPLICABLE
 - (11) Claims Unpaid – The claims unpaid liability for incurred but unpaid and unreported hospital and medical claims is accrued in the period during which the services are provided, and includes actuarial estimates of services performed which have not been reported by providers to BCN. Such estimates are based on historical claims experience modified for current trends and changes in benefits provided. Revisions in actuarial estimates are reported in the period in which they arise. BCN has reinsured certain of its claims liabilities through an affiliated self-insurance trust. Processing expense related to claims is accrued based on an estimate of expenses to process such claims.
 - (12) At December 31, 2008, BCN had no change in its capitalization policy from the prior period.
 - (13) Pharmaceutical rebate receivables are estimated based on historical rebate trends and membership.
- 2. Accounting Changes and Corrections of Errors – NOT APPLICABLE
 - 3. Business Combinations and Goodwill
 - A) Statutory Purchase Method – NOT APPLICABLE
 - B) Statutory Merger – NOT APPLICABLE

Effective December 31, 2007, M-CARE merged with and into BCN, through a statutory merger, at which time the separate existence of M-CARE ceased.

 - C) Assumption Reinsurance – NOT APPLICABLE
 - D) Impairment Loss – NOT APPLICABLE
 - 4. Discontinued Operations – NOT APPLICABLE
 - 5. Investments
 - A. Mortgage Loans – NOT APPLICABLE
 - B. Debt Restructuring – NOT APPLICABLE
 - C. Reverse Mortgages – NOT APPLICABLE
 - D. Loan-Backed Securities

BCN loan-backed securities are stated at amortized cost. Premiums and discounts on loan-backed securities and structured securities are amortized using the retrospective method based on anticipated prepayments at the date of purchase. Prepayment assumptions are obtained from broker dealer survey values or internal estimates. Changes in estimated cash flows from the original purchase assumptions are accounted for using the retrospective method.
 - E. Repurchase Agreements – NOT APPLICABLE
 - F. Real Estate – NOT APPLICABLE
 - G. Investments in low-income housing tax credits (LIHTC) – NOT APPLICABLE
 - 6. Joint Ventures, Partnerships and Limited Liability Companies – NOT APPLICABLE.

7. Investment Income

- A. BCN non admits investment income due and accrued based on an assessment of collectability and whether the amounts are over 90 days past due.
- B. BCN admitted all accrued investment income as of December 31, 2008 and 2007, respectively.

8. Derivative Instruments – NOT APPLICABLE

9. Income Taxes

- A. Deferred Tax Assets or Deferred Tax Liabilities – NOT APPLICABLE
- B. Unrecognized Deferred Tax Liabilities – NOT APPLICABLE
- C. Components of income tax incurred - BCN has been recognized by the Internal Revenue Service under Internal Revenue Code Section 501(c)(4) as an organization exempt from tax under Section 501(a). In 2008 and 2007, BCN recorded \$191,383 and \$31,475, respectively, in federal income tax expense on unrelated business income. There are no deferred income tax assets or deferred income tax liabilities, no investment tax credits, and no loss carry forward.
- D. Significant book to tax adjustments – NOT APPLICABLE
- E. Loss carry forwards, credit carry forwards - NOT APPLICABLE
- F. Consolidated tax filing – NOT APPLICABLE

10. Information Concerning Parent, Subsidiaries, Affiliates and Other Related Parties

- A. On a routine basis, BCN conducts business transactions with its parent, Blue Cross Blue Shield of Michigan (BCBSM) and affiliates: Blue Care of Michigan (BCMI), a subsidiary of BCBSM; Malpractice Trust, an affiliated grantor trust; Stop-Loss Trust, an affiliated grantor trust; Michigan Health Insurance Company (MHIC), a subsidiary of BCBSM; Accident Fund Insurance Company of America (AFICA), a subsidiary of BCBSM; Health Care Exchange, LTD, d/b/a DenteMax (DenteMax), a subsidiary of BCBSM; BCBSM Foundation, a subsidiary of BCMI; BCNSC, a subsidiary of BCN; and BlueCaid, a subsidiary of BCN.
- B. These transactions include some claims processing, capitated arrangements, miscellaneous administrative support (accounting, legal and treasury management services), capital infusions, building rent, leased employees, malpractice liability coverage, insolvency coverage, and reduced deductibles for property, general liability, automobile, and fidelity insurance coverage.

Administrative support fees paid to affiliates were allocated to the statutory administrative expense categories of cost containment, other claims adjustment, general administrative and investment expenses, based on the affiliate's statutory administrative expense categories. These statutory administrative expense categories were further allocated to detailed expense accounts based on the affiliate's expense detail.

- C. For the years ended December 31, 2008 and 2007, respectively, \$772,280,371 and \$623,158,273, were billed from the parent, subsidiaries, affiliates and other related parties for the operating activities detailed above, and \$50,713,820 and \$35,418,177 were billed to parent, subsidiaries, affiliates and other related parties, with the majority of the transactions related to the parent BCBSM.

Additionally, during 2007, BCN's Board authorized and paid \$1,500,000 as a capital infusion to BlueCaid. During 2007, BCN's Board authorized \$4,800,000 and paid \$4,500,000 as capital infusions to BCN Service Company. This paid-in capital is reflected in the carrying value of the subsidiaries.

- D. All related party receivable and payable balances are classified as either amounts due from or to parent, subsidiaries and affiliates, except for reinsurance ceded, ceded reinsurance premium payable, and claims unpaid.

At December 31, 2008 and 2007, BCN had \$7,112,366 and \$9,489,876 in amounts due from parent, subsidiaries, affiliates and other related parties, and \$82,339,412 and \$72,754,736 in amounts due to parent, subsidiaries, affiliates and other related parties, with the majority of the transactions related to the parent BCBCM.

- E. Affiliate Guarantees – NOT APPLICABLE
- F. BCN has agreements with its parent and affiliates under which both or either parties may provide services to each other. The agreements provide for monthly payments and a year-end settlement based on actual cost of services performed.
- G. BCBSM, BCN, BCMI, BCBSM Foundation, BCNSC, BlueCaid, MHIC, DenteMax, and AFC have some common officers and members on their respective governing boards.
- H. Ownership in upstream affiliate or parent – NOT APPLICABLE
- I. BCN performs the test of “significance of an investment to the reporting entity’s financial position and results of operations,” as required by SSAP No. 97, *Investments in Subsidiary, Controlled and Affiliated Entities, A replacement of SSAP No. 88*. BCN’s carrying value of its investments in the Stop-Loss Trust, Malpractice Trust, BCNSC and BlueCaid do not exceed 10% of BCN’s total admitted assets.
- J. Investment impaired – NOT APPLICABLE
- K. Investment in a foreign insurance subsidiary – NOT APPLICABLE
- L. Investment in downstream noninsurance holding company – NOT APPLICABLE

11. Debt – NOT APPLICABLE

12. Retirement Plans, Deferred Compensation, Post-employment Benefits and Compensated Absences and Other Postretirement Benefit Plans

A. Defined Benefit Plan

Substantially all employees of BCN, who meet certain requirements of age and length of service, are covered by defined benefit retirement plans administered by BCBSM. BCN's policy is to fund accrued retirement costs, as determined by BCBSM's consulting actuaries, to the extent permitted by Internal Revenue Service regulations. These benefits are subject to revision at the discretion of the Board of Directors for nonrepresented employees and subject to collective bargaining agreements for represented employees.

The defined benefit retirement plans weighted-average target asset allocation and actual asset allocation at December 31, 2008 and 2007, by asset category are as follows:

Asset Category	Target	2008	2007
Equity securities	70.0 %	62.0 %	72.0 %
Debt securities / Fixed Income	25.0 %	31.0 %	26.0 %
Other	<u>5.0 %</u>	<u>7.0 %</u>	<u>2.0 %</u>
Total	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

BCBSM has developed an asset allocation policy based on its objectives, characteristics of pension liabilities, capital market expectations, and asset-liability projections. This policy is long-term oriented and consistent with BCBSM's risk posture. BCBSM uses a mix of core and satellite managers to implement its asset allocation policy. BCBSM reviews its asset mix on a periodic basis and reallocates its portfolio at any time there is a material deviation in the asset class as described in the allocation policy. The policy includes a target allocation, as included in the

table above, and a range of plus or minus 3 percent of the target established. Asset allocations are currently outside of the target range variances due to the fact that market value reductions on equity securities exceed those on debt securities in 2008. BCBSM will rebalance pension asset allocations as provided in the guidelines as market conditions allow.

Under the amended defined benefit plan for nonrepresented employees, each participant has an account balance to which interest and earnings credits are added. Interest is credited quarterly based on the prior August one-year Treasury Bill rate. For employees hired prior to January 1, 2007, annual earnings credits of 6% to 10% are credited to participants' account balances on a monthly basis and monthly 2% annual transition credits are made through 2008. For employees hired on or after January 1, 2007, annual earnings credits of 3% to 5% are credited to participants' account balances on a monthly basis. Employees can elect to receive the lump-sum value of their vested account balance or monthly payments at retirement or termination.

BCN provides certain postretirement health care benefits to substantially all employees that meet certain age and length of service requirements under a plan administered by BCBSM. This plan is "pay-as-you-go" and as such, has no asset allocations. Benefits are funded as incurred. This is a non contributory plan.

Nonrepresented and represented employees retiring after December 31, 2003, and December 31, 2005, respectively, may have premium sharing, higher deductibles, and co-payments depending on their eligibility status at December 31, 2003, and December 31, 2005, respectively. Represented and nonrepresented employees hired before January 1, 2004 who have at least ten years of service after age 45 and retire from active employment or who become disabled and meet certain benefit and service requirements are eligible. Additionally, nonrepresented and represented employees hired on or after January 1, 2004, and January 1, 2006, respectively, are required to have 15 years of service after age 45 to be eligible for retiree health care benefits and selected other benefits. Nonrepresented employees hired on or after January 1, 2007 will be provided access to retiree health care coverage but will be responsible for 100% of the cost of such benefit. Effective January 1, 2008, nonrepresented retirees that are Medicare eligible will be required to enroll in one of BCBSM or BCN's Medicare Advantage product offerings in order to receive company provided healthcare coverage. Certain revisions to the nonrepresented employees' postretirement benefits other than pensions will take effect January 1, 2009. Effective for all nonrepresented employees not retired by January 1, 2010, a 4% annual cap will be placed on annual increase in health care costs that will be paid by BCN. Any annual increase in the cost above 4% will be paid by the plan participant.

The plan is noncontributory for represented employees and contributions of \$30,841 and \$14,936 have been made by nonrepresented retirees for 2008 and 2007, respectively.

Non-Qualified Plans - Retirement benefits are provided for a group of key employees under non-qualified defined benefit pension plans. The general purpose of the plans is to provide additional retirement benefits to participants who are subject to the contribution and benefit limitations contained in the Internal Revenue Code. Benefits under the plans are unfunded and paid out of general assets of BCN.

A summary of assets, obligations, and assumptions of the pension and other postretirement benefit plans at the plan's measurement dates of September 30, 2008 and 2007, and as allocated to BCN from BCBSM, are as follows at December 31, 2008 and 2007:

	Pension Benefits		Postretirement Benefits	
	2008	2007	2008	2007
Change in benefit obligation:				
Benefits obligation—beginning of year	\$ 111,280,889	\$ 108,479,945	\$ 56,756,298	\$ 62,714,745
Service cost	6,464,333	5,833,776	3,035,826	4,306,286
Interest cost	6,857,950	6,428,982	3,430,197	3,293,782
Amendments	360,776	0	(3,216,219)	(2,606,517)
Actuarial loss (gain)	(25,486,374)	(3,757,886)	(11,368,685)	(7,647,448)
Benefits paid	<u>(6,474,850)</u>	<u>(5,703,928)</u>	<u>(3,094,939)</u>	<u>(3,304,550)</u>
Benefits obligation—end of year	<u>\$ 93,002,724</u>	<u>\$ 111,280,889</u>	<u>\$ 45,542,478</u>	<u>\$ 56,756,298</u>
	Pension Benefits		Postretirement Benefits	
	2008	2007	2008	2007
Change in plan assets:				
Fair value of plan assets—beginning of year	\$ 113,507,400	\$ 103,496,077	\$	\$
Actual return on plan assets	(20,924,262)	15,601,542		
Employer contribution	3,965,057	0		
Benefits paid	<u>(6,186,084)</u>	<u>(5,590,219)</u>		
Fair value of plan assets—end of year	<u>\$ 90,362,111</u>	<u>\$ 113,507,400</u>	<u>\$</u>	<u>\$</u>
	Pension Benefits		Postretirement Benefits	
	2008	2007	2008	2007
Funded Status:				
Funded status - (underfunded) funded	\$ (2,640,613)	\$ 2,226,511	\$ (45,542,478)	\$ (56,756,298)
Unamortized prior service cost	973,328	714,642	(6,958,396)	(4,320,157)
Unrecognized net (gain) loss	(13,211,147)	(17,657,218)	684,656	12,428,095
Additional liability	(12,931)	(14,170)		
Contribution between measurement date and fiscal year end	<u>28,453</u>	<u>28,418</u>		
Accrued liabilities	<u>\$ (14,862,910)</u>	<u>\$ (14,701,817)</u>	<u>\$ (51,816,218)</u>	<u>\$ (48,648,360)</u>
Amounts recognized in the statement of admitted assets, liabilities, capital and surplus - statutory basis consist of:				
Accrued pension expense included in other liabilities	\$ (14,862,910)	\$ (14,701,817)	\$ -	\$ -
Less: Prepaid nonadmitted assets	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net accrued liability	<u>\$ (14,862,910)</u>	<u>\$ (14,701,817)</u>	<u>\$</u>	<u>\$</u>

The accumulated benefit obligation for all defined benefit pension plans was \$85,741,445 and \$100,497,146 at September 30, 2008 and 2007, respectively.

	Pension Benefits		Postretirement Benefits	
	2008	2007	2008	2007
Benefit obligation for non vested employees	\$ 755,066	\$ 1,585,956	\$ 12,589,997	\$ 19,244,671
	Pension Benefits		Postretirement Benefits	
	2008	2007	2008	2007
Components of net periodic benefit cost:				
Service Cost	\$ 6,464,333	\$ 5,833,776	\$ 3,035,826	\$ 4,306,286
Interest Cost	6,857,950	6,428,982	3,430,197	3,293,782
Expected return on plan assets	(8,997,322)	(8,333,968)		
Amortization of unrecognized (gain) loss	(10,861)	(26,241)	374,755	679,710
Amount of prior service cost recognized	102,090	70,163	(577,980)	(425,488)
Total net periodic benefit cost	<u>\$ 4,416,190</u>	<u>\$ 3,972,712</u>	<u>\$ 6,262,798</u>	<u>\$ 7,854,290</u>

The weighted-average assumptions as of December 31, 2008 and 2007 are as follows:

	Pension Benefits		Other Benefits	
	2008	2007	2008	2007
Discount rate	8.45 %	6.30 %	8.35 %	6.40 %
Rate of compensation increase	4.75 %	4.75 %	N/A	N/A
Expected long-term rate of return on plan assets	9.00 %	9.00 %	N/A	N/A

For 2009, the expected long-term rate of return on assets will be 9%.

For 2008 measurement purposes, the health care trend rate on covered postretirement benefits is assumed to be 7.75% for 2008, ratably decreasing to 5.00% by 2015 and all years thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total of service and interest cost components	\$ 868,387	\$ 718,375
Effect on postretirement benefit obligation	\$ 4,850,274	\$ 4,144,365

At December 31, 2008, BCN does not expect to contribute to its defined benefit pension plans in 2009.

Deferred Compensation Plan - BCN has a deferred compensation benefit plan for a group of key employees and members of BCN's Board of Directors. Under the plan, eligible participants may elect to defer to a future period a portion of salary or director fees that are earned and normally payable as services are rendered. Elections to defer compensation must be made prior to the end of the month for deferrals to become effective in the following month. Deferred amounts are unfunded and paid out of the general assets of BCN.

- B. **Defined Contribution Plans** — Substantially all employees who have completed three months of continuous service may elect to participate in savings plans administered by BCBSM, which are qualified under Section 401(k) of the Internal Revenue Code. Participating employees may elect to contribute to the plans and BCN matches a portion of the employees' contributions after one year of continuous service. BCN's contributions were \$2,323,934 and \$3,191,716 and

\$2,233,981 in 2008 and 2007, respectively. Effective January 2, 2008, newly hired nonrepresented employees were automatically enrolled in the 401(k) plan after meeting eligibility requirements.

- C. Multi-employer Plans – NOT APPLICABLE.
- D. Consolidated/Holding Company Plans – NOT APPLICABLE
- E. Post employment Benefits and Compensated Absences – NOT APPLICABLE
- F. Impact of Medicare Modernization Act on Postretirement Benefits – On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (Act) was signed into law. The Act provides a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least equivalent to the Medicare Part D benefit. In 2004, BCN adopted Financial Accounting Standards Board Staff Position 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*. BCN determined that the prescription drug benefits provided by postretirement health care plans administered by BCBSM are actuarially equivalent to the Medicare Part D and accordingly, entitles BCN to the federal subsidy described in the Act.

At December 31, 2008, the gross benefit payments expected to be paid and subsidies anticipated to be received by BCN are as follows:

Years Ending December 31,	Pension Benefits	Postretirement Benefits	
	Future Benefit Payments	Future Benefit Payments	Anticipated Future Subsidies
2009	\$ 11,420,000	\$ 4,180,000	\$ 240,000
2010	5,100,000	4,140,000	280,000
2011	5,900,000	4,440,000	330,000
2012	6,340,000	4,750,000	390,000
2013	7,070,000	5,080,000	450,000
2014 through 2018	<u>45,060,000</u>	<u>31,080,000</u>	<u>3,200,000</u>
Total	<u>\$ 80,890,000</u>	<u>\$ 53,670,000</u>	<u>\$ 4,890,000</u>

13. Capital and Surplus, Shareholders' Dividend Restrictions and Quasi-Reorganizations.

- (1) BCN has 500 shares authorized, 100 shares issued and 100 shares outstanding. All shares are one class – all common stock and have a par value of \$100 per share.
- (2) BCN has no preferred stock outstanding.
- (3) The Company's Articles of Incorporation do not allow dividends. Prior to the merger of M-CARE detailed in Note 2, M-CARE Articles of Incorporation were amended to permit the extraordinary dividend of BlueCaid to BCN.
- (4) Dividends Paid –As detailed in Note 10, on October 1, 2007 (prior to the merger of BCN and M-CARE), M-CARE paid a non-cash extraordinary dividend of \$3,700,106 transferring the ownership of BlueCaid to BCN.
- (5) The Company's Articles of Incorporation state that no dividends shall be directly paid on any shares nor shall the shareholders be entitled to any portion of the earnings derived through increment of value upon its property or otherwise incidentally made.
- (6) There were no restrictions placed on the BCN's surplus, including for whom the surplus is being held.
- (7) The total amount of advances to surplus not repaid – NOT APPLICABLE

- (8) The amount of stock held by BCN for special purposes – NOT APPLICABLE
- (9) Special surplus funds changes – NOT APPLICABLE
- (10) The portion of unassigned funds (surplus) represented or reduced by unrealized gains and losses is an unrealized gain of \$2,393,819 as of December 31, 2008.
- (11) Surplus Notes – NOT APPLICABLE
- (12) Impact of any restatement due to quasi-reorganization – NOT APPLICABLE
- (13) Effective dates of all quasi-reorganizations in the prior 10 years is/are – NOT APPLICABLE

14. Contingencies

- A. Contingent Commitments – NOT APPLICABLE
- B. Assessments – NOT APPLICABLE
- C. Gain Contingencies – NOT APPLICABLE
- D. Claims Related to Extra Contractual Obligations and Bad Faith Losses Stemming from Lawsuits – NOT APPLICABLE
- E. All Other Contingencies

BCN is a party to lawsuits incidental to the operations of BCN. Management believes that the ultimate disposition of such contingencies will not have a material effect on the accompanying statutory basis financial statements.

15. Leases

- A. Lessee Operating Lease

(1) Lessees leasing arrangements

BCN has entered into certain cancelable building leases with BCBSM. Rent expense paid to BCBSM in 2008 and 2007 was \$2,048,441 and \$2,362,768, respectively.

BCN also leases office buildings under operating leases with different unrelated parties. Rent expense under these leases was \$5,084,411 and \$7,424,287 in 2008 and 2007, respectively.

BCN has the option to purchase its headquarters building but has not exercised such option. The purchase price increases by 3% per year thereafter through the first 5 years of the lease. If the decision to purchase the building occurs after the first 5 years, BCN shall attempt to negotiate a reasonable price. BCN also has the option at the expiration of the lease at June 30, 2015, to extend the lease for 3 terms of 5 years each with prior written notice.

(2) Noncancelable leases

- (a) At December 31, 2008, the minimum aggregate rental commitments are as follows:

Year Ending December 31	Operating Leases
2009	4,674,107
2010	4,796,650
2011	4,931,630
2012	5,068,178
2013	5,206,351
2014 and thereafter	5,814,385
Total	<u>\$ 30,491,301</u>

- (b) Non-cancelable subleases – NOT APPLICABLE

(3) Sales-leaseback transactions – NOT APPLICABLE

B. Lessor Leases – NOT APPLICABLE

16. Information About Financial Instruments With Off-Balance Sheet Risk and Financial Instruments With Concentrations of Credit Risk – NOT APPLICABLE

17. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

BCN, in the normal course of business, enters into security lending agreements with various other counterparties. Under these agreements, BCN lends U.S. government and corporate securities in exchange for collateral consisting primarily of cash and U.S. government notes, approximating 102% of the value of the securities loaned. The collateral pledged from counterparties is not available for BCN's general use and therefore is restricted. These agreements are primarily overnight in nature and settled the next business day. At December 31, 2008 and 2007, securities lending cash collateral totaled \$0 and \$55,798,581, respectively, and non-cash collateral totaled \$0 and \$174,519,721, respectively.

18. Gain or Loss to the Reporting Entity from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans –

A. ASO Plans – NOT APPLICABLE

B. ASC Plans – NOT APPLICABLE

C. Medicare or Other Similarly Structured Cost Based Reimbursement Contract

- 1. Revenue from BCN's Medicare Part D cost based reimbursement portion of the contract for the years 2008 and 2007, respectively, consisted of \$1,229,548 and \$1,276,401 for reinsurance subsidy and \$993,265 and \$926,706 for low-income cost sharing subsidy.
- 2. As of December 31, 2008 and 2007, respectively, BCN had recorded receivables from the following payors whose account balances are greater than 10% of BCN's amounts receivable from uninsured accident and health plans or \$10,000:

	<u>2008</u>	<u>2007</u>
Centers for Medicare & Medicaid Services (CMS)	\$85,004	\$0

- 3. In connection with BCN's Medicare D cost based reimbursement portion of the contract, BCN has recorded allowances and reserves for adjustment of recorded revenues in the amount of \$276,308 and \$1,053,105 at December 31, 2008 and 2007, respectively.
- 4. BCN has made no adjustment to revenue resulting from audit of receivables related to revenues recorded in the prior period.

19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators – NOT APPLICABLE

20. Other Items

A. Extraordinary Items – NOT APPLICABLE

B. Troubled Debt Restructuring – NOT APPLICABLE

C. Other Disclosures

Statutory Deposit - As a condition of maintaining BCN's certificate of authority with the State of Michigan, BCN is required to maintain a minimum deposit of \$1,000,000 in a segregated account. At December 31, 2007, because of the merger detailed in Note 3B, BCN temporarily held \$2,000,000 in statutory deposit accounts. These funds can only be used by BCN at the direction of the Insurance Commissioner of the State of Michigan. The funds are invested in an exempt Money Market Mutual Fund. Interest on these funds accrues to BCN.

Industry Concentration - BCN primarily conducts business within the State of Michigan, and a significant portion of BCN's customer base is concentrated in

companies that are part of the automobile manufacturing industry. Receivables from these customers approximate \$ 1,136,144 and \$1,195,032 at December 31, 2008 and 2007, respectively. BCN held no investments in these customers' equity securities, corporate bonds, commercial paper, and medium term notes at December 31, 2008 and 2007.

- D. Uncollectible Premiums and Premiums Receivable – NOT APPLICABLE
- E. Business Interruption Insurance Recoveries – NOT APPLICABLE
- F. State Transferable Tax Credits – NOT APPLICABLE
- G. Hybrid Securities – NOT APPLICABLE
- H. Subprime Mortgage Related Risk Exposure – NOT APPLICABLE
- I. Federal Home Loan Bank Agreements – NOT APPLICABLE

21. Events Subsequent

Effective January 1, 2009, all BCN employees became employees of BCBSM excluding health center employees. All liabilities related to pension and postretirement were assumed by BCBSM.

BCN will cease operating the family health center on or before September 30, 2009 as approved by the Board of Directors on February 17, 2009.

22. Reinsurance

A. Ceded Reinsurance Report

BCN accounts for its transactions with the Stop-Loss Trust as if it were ceded reinsurance in compliance with the NAIC annual statement instructions and SSAP No. 61. Life, Deposit-Type and Accident and Health Reinsurance. The Stop-Loss Trust covers risks incurred in excess of a retention amount. BCN is responsible for inpatient hospital claims up to \$150,000 per member each year (the deductible) and has an agreement with the Stop-Loss Trust to cover the claims incurred over the deductible. The Stop-Loss Trust also provides insolvency coverage.

Section 1 – General Interrogatories

1. Are any of the reinsurers, listed in Schedule S as non-affiliated, owned in excess of 10% or controlled, either directly or indirectly, by the company or by any representative, officer, trustee, or director of the company?

Yes () No (X)

If yes, give full details.

2. Have any policies issued by the company been reinsured with a company chartered in a country other than the United States (excluding U.S. Branches of such companies) that is owned in excess of 10% or controlled directly or indirectly by an insured, a beneficiary, a creditor or an insured or any other person not primarily engaged in the insurance business?

Yes() No (X)

If yes, give full details.

Section 2 – Ceded Reinsurance Report – Part A

1. Does the company have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel any reinsurance for reasons other than for nonpayment of premium or other similar credit?

Yes () No (X)

a.) If yes, what is the estimated amount of the aggregate reduction in surplus of a unilateral cancellation by the reinsurer as of the date of this statement, for those agreements in which cancellation results in a net obligation of the reporting entity to the reinsurer, and for which such obligation is not presently accrued? Where necessary, the reporting entity may consider the current or anticipated experience of the business reinsured in making this estimate. NOT APPLICABLE

b.) What is the total amount of reinsurance credits taken, whether as an asset or as a reduction of liability for these agreements in this statement? NOT APPLICABLE

2. Does the reporting entity have any reinsurance agreements in effect such that the amount of losses paid or accrued through the statement date may result in a payment to the reinsurer of amounts that, in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under the reinsured policies?

Yes () No (X)

If yes, give full details.

Section 3 – Ceded Reinsurance Report – Part B

1. What is the estimated amount of the aggregate reduction in surplus, (for agreements other than those under which the reinsurer may unilaterally cancel for reasons other than for nonpayment of payment or other similar credits that are reflected in Section 2 above) of termination of ALL reinsurance agreements, by either party, as of the date of this statement? Where necessary, the company may consider the current or anticipated experience of the business reinsured in making this estimate. \$0

BCN participates in a plan of self-insurance.

2. Have any new agreements been executed or existing agreements amended, since January 1 of the year of this statement, to include policies or contracts that were in force or which had existing reserves established by the company as of the effective date of the agreement?

Yes () No (X)

If yes, what is the amount of reinsurance credits, whether an asset or a reduction of liability, taken for such new agreements or amendments? NOT APPLICABLE

B. Uncollectible Reinsurance

None

C. Commutation of Ceded Reinsurance

None

23. Retrospectively Rated Contracts and Contracts Subject to Redetermination

A. BCN estimates accrued redetermination premium adjustments and return premium adjustments for its group health insurance contracts subject to redetermination based on an examination of contract requirements in relation to the rates charged for similar sized subscriber groups and the status of past applicable audits.

BCN estimates accrued retrospective premium adjustments for its Medicare Advantage health insurance contracts based on the funds received from CMS for Medicare Part D designated as “Direct Subsidies”, “Low Income Subsidies (Premium Portion)”, “Beneficiary Premium (Standard Coverage Portion)”, “Part D Payment Demonstration” and “Risk Corridor Adjustment Payment”, as well as any subsequent adjustments made by CMS.

B. Accrued redetermination premium adjustments and return premium adjustments as well as retrospective premiums are recorded as an adjustment to earned premium.

C. The amount of net premiums written by BCN that are subject to redetermination or retrospective provisions was \$326,283,823 and \$348,518,013 for 2008 and 2007 respectively, representing approximately 15.26% and 16.21% of the total net premiums written for commercial health for 2008 and 2007. No other premiums written by BCN are subject to redetermination or retrospective provisions.

24. Change in Incurred Losses and Loss Adjustment Expenses - Activity in the liabilities for unpaid claims and claims adjustment expenses at December 31, 2008 and 2007, respectively is summarized as follows:

	Annual Statement	
	2008	2007
BALANCE—January 1	\$ 292,189,620	\$ 263,044,144
Incurred related to:		
Current year	1,912,675,462	1,923,583,038
Prior year	<u>(23,154,390)</u>	<u>(32,261,217)</u>
Total incurred	1,889,521,072	1,891,321,821
Paid related to:		
Current year	1,628,103,273	1,630,868,616
Prior year	<u>261,755,298</u>	<u>231,307,729</u>
Total paid	<u>1,889,858,571</u>	<u>1,862,176,345</u>
BALANCE—December 31	<u>\$ 291,852,121</u>	<u>\$ 292,189,620</u>
Balance at December 31:		
Liability for claims unpaid	\$ 285,572,911	\$ 281,609,762
Liability for unpaid claims adjustment expenses	<u>6,279,210</u>	<u>10,579,858</u>
Total	<u>\$ 291,852,121</u>	<u>\$ 292,189,620</u>

Changes in actuarial estimates of claims unpaid reported as “incurred related to prior year” in the schedule above reflect revisions in estimates of medical cost trends and changes in claims processing patterns.

25. Inter-company Pooling Arrangements – NOT APPLICABLE

26. Structured Settlements – NOT APPLICABLE

27. Health Care Receivables —

A. Pharmaceutical Rebate Receivables

Healthcare receivables include pharmacy rebates BCN receives from third party vendors. These rebates are calculated using estimates based on historical rebate trends and membership. Activity for the previous three years is summarized as follows:

	(1)	(2)	(3)	(4)	(5)
Quarter	Estimated Pharmacy Rebates as Reported on Financial Statements	Pharmacy Rebates as Billed or Otherwise Confirmed	Actual Rebates Received Within 90 days of Billing	Actual Rebates Received Within 91 to 180 Days of Billing	Actual Rebates Received More Than 180 Days After Billing
12/31/2008	\$ 3,733,684	\$ -	\$ 9,529	\$ -	\$ -
9/30/2008	3,786,802		251,322	-	-
6/30/2008	3,768,116	4,237,122	2,605,870	1,316,376	-
3/31/2008	3,786,417	4,339,595	871,585	3,476,296	109,977
12/31/2007	\$ 3,698,927	\$ 4,239,351	\$ 266,407	\$ 3,474,754	\$ 644,244
9/30/2007	3,538,522	3,815,324	2,191,016	1,817,566	633,528
6/30/2007	3,838,338	3,743,393	778,478	3,031,916	696,258
3/31/2007	4,025,229	3,452,321	213,215	3,269,317	1,054,390
12/31/2006	\$ 4,425,457	\$ 3,612,228	\$ 1,066,968	\$ 2,421,625	\$ 1,214,611
9/30/2006	5,681,735	3,244,103	1,475,913	1,796,223	1,187,790
6/30/2006	4,672,148	4,423,885	1,761,292	1,873,657	1,093,693
3/31/2006	3,904,473	4,009,886	2,138,191	2,150,582	908,805

B.Risk Sharing Receivables

BCN estimates the risk sharing receivable using actuarial estimates based on historical claims experience modified for current trends and benefits as well as using actual payments. BCN had risk sharing receivable of \$3,000,000, \$10,071,237 and \$4,449,063 at December 31, 2008, 2007, and 2006, respectively. Years ending December 31, 2008, 2007, and 2006 were not offset by any risk sharing payables.

Calendar Year	Evaluation Period Year Ending	Risk Sharing Receivable as Estimated and Reported in the Prior Year	Risk Sharing Receivable as Estimated and Reported in the Current Year	Risk Sharing Receivable Invoiced	Risk Sharing Receivable Not Invoiced	Actual Risk Sharing Amounts Collected in Year Invoiced	Actual Risk Sharing Amounts Collected First Year Subsequent	Actual Risk Sharing Amounts Collected Second Year Subsequent	Actual Risk Sharing Amounts Collected - All Other
2008	2008	\$ 10,071,237	\$ -	\$ 10,071,237	\$ -	\$10,071,237	\$ -	\$ -	\$ -
	2009	XXX	\$ 3,000,000	XXX	\$ 3,000,000	XXX	XXX		
2007	2007	\$ 4,449,063	\$ -	\$ 6,467,742	\$ -	\$6,467,742	\$ -	\$ -	\$ -
	2008	XXX	\$ 10,071,237	XXX	\$ 10,071,237	XXX	XXX	XXX	XXX
2006	2006	\$4,414,053	\$ -	\$4,481,051	\$ -	\$ -	\$4,357,637	\$123,414	\$ -
	2007	XXX	\$ 4,449,063	XXX	\$ 4,449,063	XXX	XXX	XXX	XXX

28. Participating Policies – NOT APPLICABLE

29. Premium Deficiency Reserves – NOT APPLICABLE

30. Anticipated Salvage and Subrogation – NOT APPLICABLE

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

1.1

Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer?

Yes [X] No []

1.2

If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations?

Yes [X] No [] N/A []

1.3

State regulating?

Michigan

2.1

Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity?

Yes [] No [X]

2.2

If yes, date of change:

3.1

State as of what date the latest financial examination of the reporting entity was made or is being made.

12/31/2007

3.2

State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released.

12/31/2003

3.3

State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date).

06/30/2005

3.4

By what department or departments?

Dept of Energy, Labor & Economic Growth - Office of Financial and Insurance Regulation

3.5

Have all financial statement adjustments within the latest financial examination report been accounted for in a subsequent financial statement filed with departments?

Yes [] No [] N/A [X]

3.6

Have all of the recommendations within the latest financial examination report been complied with?

Yes [X] No [] N/A []

4.1

During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.11

sales of new business?

Yes [] No [X]

4.12

renewals?

Yes [] No [X]

4.2

During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of:

4.21

sales of new business?

Yes [X] No []

4.22

renewals?

Yes [X] No []

5.1

Has the reporting entity been a party to a merger or consolidation during the period covered by this statement?

Yes [] No [X]

5.2

If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation.

1 Name of Entity	2 NAIC Co. Code	3 State of Domicile

6.1

Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period?

Yes [] No [X]

6.2

If yes, give full information:

7.1

Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity?

Yes [] No [X]

7.2

If yes,

7.21

State the percentage of foreign control

.....%

7.22

State the nationality(ies) of the foreign person(s) or entity(ies); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(ies) (e.g., individual, corporation, government, manager or attorney-in-fact)

1 Nationality	2 Type of Entity

8.1

Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board?

Yes [] No [X]

8.2

If response to 8.1 is yes, please identify the name of the bank holding company.

8.3

Is the company affiliated with one or more banks, thrifts or securities firms?

Yes [] No [X]

8.4

If response to 8.3 is yes, please provide the names and locations (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator.

1 Affiliate Name	2 Location (City, State)	3 FRB	4 OCC	5 OTS	6 FDIC	7 SEC

9.

What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?

Deloitte & Touche LLP. 600 Renaissance Center Suite 900 Detroit, MI 48243-1895

10.

What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?

Joseph Bojman, FSA MAAA Director of Actuarial Services, Blue Care Network of Michigan 20500 Civic Center Drive MC C410 Southfield, MI 48076

11.1

Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly?

Yes [] No [X]

11.11

Name of real estate holding company

11.12

Number of parcels involved

.....

11.13

Total book/adjusted carrying value

.....

11.2

If yes, provide explanation.

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

12.

FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:

12.1

What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?

12.2

Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located?

Yes []No []

12.3

Have there been any changes made to any of the trust indentures during the year?

Yes []No []

12.4

If answer to (12.3) is yes, has the domiciliary or entry state approved the changes?

Yes []No []N/A []

13.1

Are the senior officers (principal executive officer, principal financial officer, principal accounting officer or controller, or persons performing similar functions) of the reporting entity subject to a code of ethics, which includes the following standards?

Yes [X]No []

a.

Honest and ethical conduct, including the ethical handling of actual or apparent conflicts of interest between personal and professional relationships;

b.

Full, fair, accurate, timely and understandable disclosure in the periodic reports required to be filed by the reporting entity;

c.

Compliance with applicable governmental laws, rules and regulations;

d.

The prompt internal reporting of violations to an appropriate person or persons identified in the code; and

e.

Accountability for adherence to the code.

13.11

If the response to 13.1 is No, please explain:

13.2

Has the code of ethics for senior managers been amended?

Yes [X]No []

13.21

If the response to 13.2 is Yes, provide information related to amendment(s).

The Ethics and Compliance Policy was updated to add a section describing the BlueCaid of Michigan Compliance Plan in the Policy. Also, various miscellaneous updates were made, including a clarification that both the BCN Corporate Ethics and Compliance Program and the Ethics and Compliance Policy apply to BCN and to its subsidiary corporations (BlueCaid of Michigan and BCN Service Company) and to Blue Care of Michigan, Inc.

13.3

Have any provisions of the code of ethics been waived for any of the specified officers?

Yes []No [X]

13.31

If the response to 13.3 is yes, provide the nature of any waiver(s).

BOARD OF DIRECTORS

14.

Is the purchase or sale of all investments of the reporting entity passed upon either by the Board of Directors or a subordinate committee thereof?

Yes [X]No []

15.

Does the reporting entity keep a complete permanent record of the proceedings of its Board of Directors and all subordinate committees thereof?

Yes [X]No []

16.

Has the reporting entity an established procedure for disclosure to its Board of Directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person?

Yes [X]No []

FINANCIAL

17.

Has this statement been prepared using a basis of accounting other than Statutory Accounting Principles (e.g., Generally Accepted Accounting Principles)?

Yes []No [X]

18.1

Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):

18.11

To directors or other officers

\$.....0

18.12

To stockholders not officers

\$.....0

18.13

Trustees, supreme or grand (Fraternal only)

\$.....0

18.2

Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):

18.21

To directors or other officers

\$.....0

18.22

To stockholders not officers

\$.....0

18.23

Trustees, supreme or grand (Fraternal only)

\$.....0

19.1

Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement?

Yes []No [X]

19.2

If yes, state the amount thereof at December 31 of the current year:

19.21

Rented from others

.....

19.22

Borrowed from others

.....

19.23

Leased from others

.....

19.24

Other

.....

20.1

Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments?

Yes []No [X]

20.2

If answer is yes:

20.21

Amount paid as losses or risk adjustment

.....

20.22

Amount paid as expenses

.....

20.23

Other amounts paid

.....

21.1

Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement?

Yes [X]No []

21.2

If yes, indicate any amounts receivable from parent included in the Page 2 amount.

\$.....5,398,026

INVESTMENT

22.1

Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date (other than securities lending programs addressed in 22.3)?

Yes [X]No []

22.2

If no, give full and complete information relating thereto.

22.3

For security lending programs, provide a description of the program including value for collateral and amount of loaned securities, and whether collateral is carried on or off-balance sheet (an alternative is to reference Note 16 where this information is also provided).
BCN participates in a 3rd party custodial agreement.

22.4

Does the company's security lending program meet the requirements for a conforming program as outlined in the Risk-Based Capital Instructions?

Yes [X]No []

22.5

If answer to 22.4 is yes, report amount of collateral.

\$.....0

22.6

If answer to 22.4 is no, report amount of collateral.

.....

23.1

Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 19.1 and 22.3)

Yes [X]No []

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

- 23.2 If yes, state the amount thereof at December 31 of the current year:
- 23.21 Subject to repurchase agreements

23.22 Subject to reverse repurchase agreements

23.23 Subject to dollar repurchase agreements

23.24 Subject to reverse dollar repurchase agreements

23.25 Pledged as collateral

23.26 Placed under option agreements

23.27 Letter stock or securities restricted as to sale

23.28 On deposit with state or other regulatory body

23.29 Other
- \$.....0

\$.....0

\$.....0

\$.....0

\$.....0

\$.....0

\$.....0

\$.....1,000,000

\$.....72,830,243

23.3 For category (23.27) provide the following:

1	2	3
Nature of Restriction	Description	Amount

- 24.1 Does the reporting entity have any hedging transactions reported on Schedule DB?
- 24.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state?
If no, attach a description with this statement.
- Yes []

No [X]

Yes []

No []

N/A []

- 25.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity?
- 25.2 If yes, state the amount thereof at December 31 of the current year:
- Yes []

No [X]

.....

26. Excluding items in Schedule E-Part 3-Special Deposits, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Section 3, III Conducting Examinations, F - Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook?
- Yes [X]

No []

26.01 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1	2
Name of Custodian(s)	Custodian's Address
State Street Bank & Trust Company	801 Pennsylvania, Kansas City, MO 64105
Fidelity Investments Institutional Operations Company	100 Magellan Way KW2B Covington, KY 41015

26.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1	2	3
Name(s)	Location(s)	Complete Explanation(s)

- 26.03 Have there been any changes, including name changes, in the custodian(s) identified in 26.01 during the current year?
- Yes []

No [X]

26.04 If yes, give full and complete information relating thereto:

1	2	3	4
Old Custodian	New Custodian	Date of Change	Reason

26.05 Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1	2	3
Central Registration Depository Number(s)	Name	Address
	Blue Cross Blue Shield of Michigan	600 E. Lafayette Blvd. Detroit, MI 48226

- 27.1 Does the reporting entity have any diversified mutual funds reported in Schedule D-Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5(b)(1)])?
- Yes []

No [X]

27.2 If yes, complete the following schedule:

1	2	3
CUSIP #	Name of Mutual Fund	Book/Adj.Carrying Value
27.2999. TOTAL		0

27.3 For each mutual fund listed in the table above, complete the following schedule:

1	2	3	4
Name of Mutual Fund (from the above table)	Name of Significant Holding of the Mutual Fund	Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to Holding	Date of Valuation

28. Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

	1	2	3
	Statement (Admitted) Value	Fair Value	Excess of Statement over Fair Value (-), or Fair Value over Statement (+)
28.1 Bonds.....	733,957,578	730,494,283	(3,463,295)
28.2 Preferred stocks.....			0
28.3 Totals.....	733,957,578	730,494,283	(3,463,295)

28.4 Describe the sources or methods utilized in determining the fair values:

State Street Bank and the NAIC Valuation of Securities are the sources for determining the fair values.

- 29.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed?
- 29.2 If no, list exceptions:
- Yes [X]

No []

OTHER

- 30.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any?
- 30.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.
- \$.....783,039

1	2
Name	Amount Paid
Blue Cross Blue Shield Association	345,934
Amercia's Health Insurance Plans	260,466

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

- 31.1 Amount of payments for legal expenses, if any?

\$.....96,458
- 31.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

1 Name	2 Amount Paid
Dickinson Wright PLLC	51,784
Jones Day	33,553

- 32.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any?

\$.....0
- 32.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

1 Name	2 Amount Paid

Blue Care Network of Michigan
GENERAL INTERROGATORIES (continued)

PART 2 - HEALTH INTERROGATORIES

1.1

Does the reporting entity have any direct Medicare Supplement Insurance in force?

Yes [☐]

No [☒]

1.2

If yes, indicate premium earned on U.S. business only

1.3

What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit?

1.31

Reason for excluding

1.4

Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above.

1.5

Indicate total incurred claims on all Medicare Supplement insurance.

1.6

Individual policies:

Most current three years:

1.61

Total premium earned

1.62

Total incurred claims

1.63

Number of covered lives

All years prior to most current three years:

1.64

Total premium earned

1.65

Total incurred claims

1.66

Number of covered lives

1.7

Group policies:

Most current three years:

1.71

Total premium earned

1.72

Total incurred claims

1.73

Number of covered lives

All years prior to most current three years:

1.74

Total premium earned

1.75

Total incurred claims

1.76

Number of covered lives

2.

Health test:

	1 Current Year	2 Prior Year
2.1 Premium Numerator.....	2,138,055,960	2,150,301,539
2.2 Premium Denominator.....	2,138,055,960	2,150,301,539
2.3 Premium Ratio (2.1/2.2).....	100.0	100.0
2.4 Reserve Numerator.....	334,409,961	359,917,308
2.5 Reserve Denominator.....	334,409,961	359,917,309
2.6 Reserve Ratio (2.4/2.5).....	100.0	100.0

3.1

Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, and if the earnings of the reporting entity permits?

Yes [☐]

No [☒]

3.2

If yes, give particulars:

4.1

Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and dependents been filed with the appropriate regulatory agency?

Yes [☒]

No [☐]

4.2

If not previously filed, furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered?

Yes [☐]

No [☐]

5.1

Does the reporting entity have stop-loss reinsurance?

Yes [☐]

No [☒]

5.2

If no, explain:

Blue Care Network of Michigan participates in the BCN Stop-Loss & Casualty Self-Insurance Trust. Expiration date of 12/31/2008.

Unlimited coverage with a deductible of \$150,000. BCN accounts for the activity with the Trust as if it were re-insurance.

5.3

Maximum retained risk (see instructions):

5.31

Comprehensive medical

\$.....150,000

5.32

Medical only

\$.....0

5.33

Medicare supplement

\$.....0

5.34

Dental and vision

\$.....0

5.35

Other limited benefit plan

\$.....0

5.36

Other

\$.....0

6.

Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements:

Hold harmless provisions are included in contracts with providers. Also, Blue Care Network of Michigan members have coversion rights to Blue Cross Blue Shield of Michigan coverage.

In addition, a State mandated cash deposit is maintained, along with Stop-Loss Self-Insurance coverage which includes an insolvency clause.

7.1

Does the reporting entity set up its claim liability for provider services on a service date base?

Yes [☒]

No [☐]

7.2

If no, give details:

8.

Provide the following information regarding participating providers:

8.1

Number of providers at start of reporting year

.....14,259

8.2

Number of providers at end of reporting year

.....14,591

9.1

Does the reporting entity have business subject to premium rate guarantees?

Yes [☐]

No [☒]

9.2

If yes, direct premium earned:

9.21

Business with rate guarantees between 15-36 months

9.22

Business with rate guarantees over 36 months

10.1

Does the reporting entity have Incentive Pool, Withhold or Bonus arrangements in its provider contracts?

Yes [☒]

No [☐]

10.2

If yes:

10.21

Maximum amount payable bonuses

\$.....45,355,558

10.22

Amount actually paid for year bonuses

\$.....61,986,756

10.23

Maximum amount payable withholds

\$.....11,832,246

10.24

Amount actually paid for year withholds

\$.....10,619,749

Blue Care Network of Michigan
GENERAL INTERROGATORIES (continued)

PART 2 - HEALTH INTERROGATORIES

11.1 Is the reporting entity organized as:

11.12 A Medical Group/Staff Model,

11.13 An Individual Practice Association (IPA), or

11.14 A Mixed Model (combination of above)?

Yes []

No [X]

Yes []

No [X]

Yes [X]

No []

11.2 Is the reporting entity subject to Minimum Net Worth Requirements?

Yes [X]

No []

11.3 If yes, show the name of the state requiring such net worth.

Michigan

11.4 If yes, show the amount required.

\$.....86,006,399

11.5 Is this amount included as part of a contingency reserve in stockholder's equity?

Yes []

No [X]

11.6 If the amount is calculated, show the calculation:

4% of subscription revenue: \$2,150,159,964 x 4% = \$86,006,399

12. List service areas in which reporting entity is licensed to operate:

1 Name of Service Area
ALCONA
ALLEGAN
ALPENA
ANTRIM
ARENAC
BARRY
BAY
BENZIE
BERRIEN
CALHOUN
CASS
CHARLEVOIX
CHEBOYGAN
CLARE
CLINTON
CRAWFORD
EATON
EMMET
GENESEE
GLADWIN
GRAND TRAVERSE
GRATIOT
HILLSDALE
HURON
INGHAM
IONIA
IOSCO
ISABELLA
JACKSON
KALAMAZOO
KALKASKA
KENT
LAPEER
LEELANAU
LIVINGSTON
MACKINAC
MACOMB
MANISTEE
MIDLAND
MECOSTA
MONROE
MONTCALM
MONTMORENCY
MUSKEGON
NEWAYGO
OAKLAND
OCEANA
OGEMAW
OSCODA
OTSEGO
OTTAWA
PRESQUE ISLE
ROSCOMMON
SAGINAW
SHIAWASSEE
ST. CLAIR
ST. JOSEPH
TUSCOLA
VAN BUREN
WASHTENAW
WAYNE
WEXFORD

Blue Care Network of Michigan
FIVE-YEAR HISTORICAL DATA

	1 2008	2 2007	3 2006	4 2005	5 2004
Balance Sheet Items (Pages 2 and 3)					
1. Total admitted assets (Page 2, Line 26).....	841,062,623	785,302,394	675,400,498	697,705,479	618,295,943
2. Total liabilities (Page 3, Line 22).....	504,322,800	541,192,674	480,664,858	384,682,565	399,817,739
3. Statutory surplus.....	86,006,399	86,506,608	81,581,202	57,673,083	56,141,701
4. Total capital and surplus (Page 3, Line 31).....	336,739,823	244,109,720	194,735,640	313,022,914	218,478,204
Income Statement Items (Page 4)					
5. Total revenues (Line 8).....	2,141,451,384	2,151,856,958	2,034,388,600	1,439,429,414	1,395,437,885
6. Total medical and hospital expenses (Line 18).....	1,847,780,998	1,860,555,662	1,752,212,012	1,154,101,893	1,115,660,742
7. Claims adjustment expenses (Line 20).....	76,492,030	88,186,400	78,326,005	70,738,036	78,409,518
8. Total administrative expenses (Line 21).....	164,185,796	186,850,646	196,840,660	152,537,245	128,764,350
9. Net underwriting gain (loss) (Line 24).....	52,992,560	16,264,250	7,009,923	62,052,240	72,603,275
10. Net investment gain (loss) (Line 27).....	32,782,116	33,670,167	74,212,796	16,488,247	8,541,784
11. Total other income (Lines 28 plus 29).....	6,974	(56,102)	(149,005)	(92,237)	
12. Net income or (loss) (Line 32).....	85,590,267	49,846,840	81,042,173	78,396,434	80,999,195
Cash Flow (Page 6)					
13. Net cash from operations (Line 11).....	38,366,196	99,078,240	94,496,060	66,542,404	113,998,898
Risk-Based Capital Analysis					
14. Total adjusted capital.....	336,739,823	244,109,720	194,735,640	313,022,914	218,478,204
15. Authorized control level risk-based capital.....	68,061,313	64,828,930	60,723,694	41,176,565	39,394,003
Enrollment (Exhibit 1)					
16. Total members at end of period (Column 5, Line 7).....	554,666	626,403	646,699	452,163	460,516
17. Total member months (Column 6, Line 7).....	6,700,008	7,564,671	7,625,979	5,398,464	5,509,462
Operating Percentage (Page 4) (Item divided by Page 4, sum of Lines 2, 3, and 5) x 100 .0					
18. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5).....	100.0	100.0	100.0	100.0	100.0
19. Total hospital and medical plus other non-health (Line 18 plus Line 19)....	86.2	86.4	86.0	80.1	79.7
20. Cost containment expenses.....	2.4	2.8	2.7	3.6	4.0
21. Other claims adjustment expenses.....	1.2	1.3	1.2	1.3	5.6
22. Total underwriting deductions (Line 23).....	97.4	99.2	99.5	95.6	94.6
23. Total underwriting gain (loss) (Line 24).....	2.5	0.8	0.3	4.3	5.2
Unpaid Claims Analysis (U&I Exhibit, Part 2B)					
24. Total claims incurred for prior years (Line 13 Col. 5).....	317,322,851	279,729,416	255,602,392	206,932,230	217,419,418
25. Estimated liability of unpaid claims - [prior year (Line 13, Col. 6)]	342,496,829	309,836,682	284,284,770	250,114,424	246,898,321
Investments in Parent, Subsidiaries and Affiliates					
26. Affiliated bonds (Sch. D Summary, Line 25, Col. 1).....					
27. Affiliated preferred stocks (Sch D. Summary, Line 39, Col. 1).....					
28. Affiliated common stocks (Sch D. Summary, Line 53, Col. 1).....	7,467,049	6,854,565	289,294		
29. Affiliated short-term investments (subtotal included in Sch. DA, Verification, Column 5, Line 10).....					
30. Affiliated mortgage loans on real estate.....					
31. All other affiliated.....	72,830,243	70,835,625	67,828,768	56,008,811	52,835,985
32. Total of above Lines 26 to 31.....	80,297,292	77,690,190	68,118,062	56,008,811	52,835,985

2006 has been restated due to merger except line 15.

SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

Allocated by States and Territories

		1	Direct Business Only							
			2	3	4	5	6	7	8	9
State, Etc.		Active Status	Accident & Health Premiums	Medicare Title XVIII	Medicaid Title XIX	Federal Employees Health Benefits Program Premiums	Life & Annuity Premiums and Other Considerations	Property/ Casualty Premiums	Total Columns 2 Through 7	Deposit-Type Contracts
1.	Alabama.....	AL...N.....							.....0	.....
2.	Alaska.....	AK...N.....							.....0	.....
3.	Arizona.....	AZ...N.....							.....0	.....
4.	Arkansas.....	AR...N.....							.....0	.....
5.	California.....	CA...N.....							.....0	.....
6.	Colorado.....	CO...N.....							.....0	.....
7.	Connecticut.....	CT...N.....							.....0	.....
8.	Delaware.....	DE...N.....							.....0	.....
9.	District of Columbia.....	DC...N.....							.....0	.....
10.	Florida.....	FL...N.....							.....0	.....
11.	Georgia.....	GA...N.....							.....0	.....
12.	Hawaii.....	HI...N.....							.....0	.....
13.	Idaho.....	ID...N.....							.....0	.....
14.	Illinois.....	IL...N.....							.....0	.....
15.	Indiana.....	IN...N.....							.....0	.....
16.	Iowa.....	IA...N.....							.....0	.....
17.	Kansas.....	KS...N.....							.....0	.....
18.	Kentucky.....	KY...N.....							.....0	.....
19.	Louisiana.....	LA...N.....							.....0	.....
20.	Maine.....	ME...N.....							.....0	.....
21.	Maryland.....	MD...N.....							.....0	.....
22.	Massachusetts.....	MA...N.....							.....0	.....
23.	Michigan.....	MI...L.....	1,811,189,032	259,182,974		68,742,624			2,139,114,630	.....
24.	Minnesota.....	MN...N.....							.....0	.....
25.	Mississippi.....	MS...N.....							.....0	.....
26.	Missouri.....	MO...N.....							.....0	.....
27.	Montana.....	MT...N.....							.....0	.....
28.	Nebraska.....	NE...N.....							.....0	.....
29.	Nevada.....	NV...N.....							.....0	.....
30.	New Hampshire.....	NH...N.....							.....0	.....
31.	New Jersey.....	NJ...N.....							.....0	.....
32.	New Mexico.....	NM...N.....							.....0	.....
33.	New York.....	NY...N.....							.....0	.....
34.	North Carolina.....	NC...N.....							.....0	.....
35.	North Dakota.....	ND...N.....							.....0	.....
36.	Ohio.....	OH...N.....							.....0	.....
37.	Oklahoma.....	OK...N.....							.....0	.....
38.	Oregon.....	OR...N.....							.....0	.....
39.	Pennsylvania.....	PA...N.....							.....0	.....
40.	Rhode Island.....	RI...N.....							.....0	.....
41.	South Carolina.....	SC...N.....							.....0	.....
42.	South Dakota.....	SD...N.....							.....0	.....
43.	Tennessee.....	TN...N.....							.....0	.....
44.	Texas.....	TX...N.....							.....0	.....
45.	Utah.....	UT...N.....							.....0	.....
46.	Vermont.....	VT...N.....							.....0	.....
47.	Virginia.....	VA...N.....							.....0	.....
48.	Washington.....	WA...N.....							.....0	.....
49.	West Virginia.....	WV...N.....							.....0	.....
50.	Wisconsin.....	WI...N.....							.....0	.....
51.	Wyoming.....	WY...N.....							.....0	.....
52.	American Samoa.....	AS...N.....							.....0	.....
53.	Guam.....	GU...N.....							.....0	.....
54.	Puerto Rico.....	PR...N.....							.....0	.....
55.	U.S. Virgin Islands.....	VI...N.....							.....0	.....
56.	Northern Mariana Islands.....	MP...N.....							.....0	.....
57.	Canada.....	CN...N.....							.....0	.....
58.	Aggregate Other alien.....	OT...XXX.....	.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0
59.	Subtotal.....	XXX.....	1,811,189,032	259,182,974	.....0	68,742,624	.....0	.....0	2,139,114,630	.....0
60.	Reporting entity contributions for Employee Benefit Plans.....	XXX.....	11,045,334						11,045,334	.....
61.	Total (Direct Business).....	(a).....1	1,822,234,366	259,182,974	.....0	68,742,624	.....0	.....0	2,150,159,964	.....0

DETAILS OF WRITE-INS

5801.	.....								.....0	.....
5802.	.....								.....0	.....
5803.	.....								.....0	.....
5898.	Summary of remaining write-ins for line 58.....		.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0
5899.	Total (Lines 5801 thru 5803 + 5898) (Line 58 above).....		.....0	.....0	.....0	.....0	.....0	.....0	.....0	.....0

Explanation of basis of allocation by states, premiums by state, etc.
Situs of contract.

(a) Insert the number of L responses except for Canada and Other Alien.

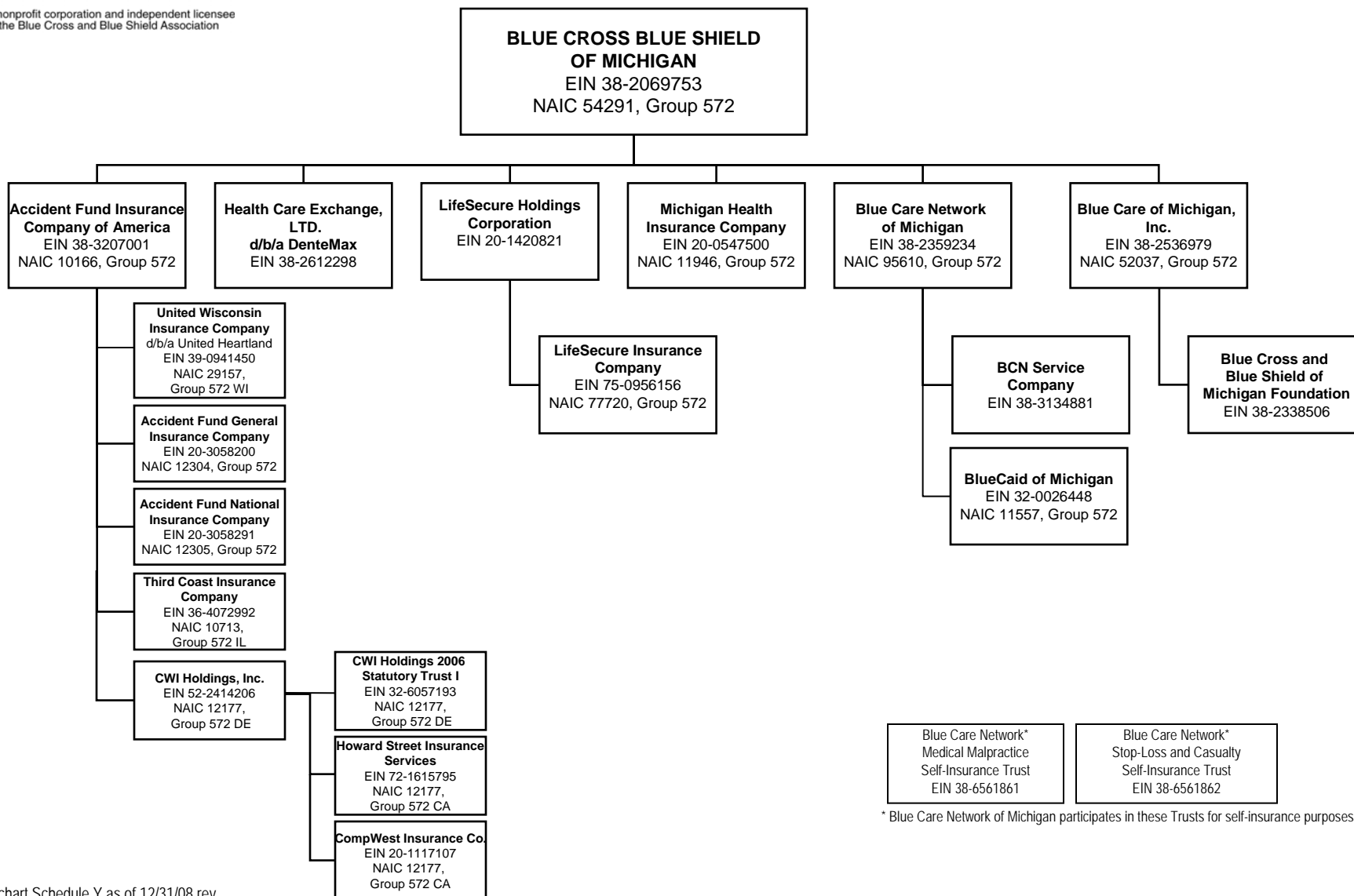
SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP
PART 1 - ORGANIZATIONAL CHART



A nonprofit corporation and independent licensee
of the Blue Cross and Blue Shield Association

SUBSIDIARY & AFFILIATE ORGANIZATION CHART

38



* Blue Care Network of Michigan participates in these Trusts for self-insurance purposes.

2008 ALPHABETICAL INDEX
HEALTH ANNUAL STATEMENT BLANK

Exhibit of Nonadmitted Assets	16	Schedule DA – Part 1	E17
Analysis of Operations By Lines of Business	7	Schedule DA –Verification Between Years	SI11
Assets	2	Schedule DB – Part A – Section 1	E18
Cash Flow	6	Schedule DB – Part A – Section 2	E18
Exhibit 1 – Enrollment By Product Type for Health Business Only	17	Schedule DB – Part A – Section 3	E19
Exhibit 2 – Accident and Health Premiums Due and Unpaid	18	Schedule DB – Part A – Verification Between Years	SI12
Exhibit 3 – Health Care Receivables	19	Schedule DB – Part B – Section 1	E19
Exhibit 4 – Claims Unpaid and Incentive Pool, Withhold and Bonus	20	Schedule DB – Part B – Section 2	E20
Exhibit 5 – Amounts Due From Parent, Subsidiaries and Affiliates	21	Schedule DB – Part B – Section 3	E20
Exhibit 6 – Amounts Due To Parent, Subsidiaries and Affiliates	22	Schedule DB – Part B – Verification Between Years	SI12
Exhibit 7 – Part 1 – Summary of Transactions With Providers	23	Schedule DB – Part C – Section 1	E21
Exhibit 7 – Part 2 – Summary of Transactions With Intermediaries	23	Schedule DB – Part C – Section 2	E21
Exhibit 8 – Furniture, Equipment and Supplies Owned	24	Schedule DB – Part C – Section 3	E22
Exhibit of Capital Gains (Losses)	15	Schedule DB – Part C – Verification Between Years	SI13
Exhibit of Net Investment Income	15	Schedule DB – Part D – Section 1	E22
Exhibit of Premiums, Enrollment and Utilization (State Page)	29	Schedule DB – Part D – Section 2	E23
Five-Year Historical Data	28	Schedule DB – Part D – Section 3	E23
General Interrogatories	26	Schedule DB – Part D – Verification Between Years	SI13
Jurat Page	1	Schedule DB – Part E – Section 1	E24
Liabilities, Capital and Surplus	3	Schedule DB – Part E – Verification	SI13
Notes To Financial Statements	25	Schedule DB – Part F – Section 1	SI14
Overflow Page For Write-ins	41	Schedule DB – Part F – Section 2	SI15
Schedule A – Part 1	E01	Schedule E – Part 1 – Cash	E25
Schedule A – Part 2	E02	Schedule E – Part 2 – Cash Equivalents	E26
Schedule A – Part 3	E03	Schedule E – Part 3 – Special Deposits	E27
Schedule A – Verification Between Years	SI02	Schedule E – Verification Between Years	SI16
Schedule B – Part 1	E04	Schedule S – Part 1 – Section 2	30
Schedule B – Part 2	E05	Schedule S – Part 2	31
Schedule B – Part 3	E06	Schedule S – Part 3 – Section 2	32
Schedule B – Verification Between Years	SI02	Schedule S – Part 4	33
Schedule BA – Part 1	E07	Schedule S – Part 5	34
Schedule BA – Part 2	E08	Schedule S – Part 6	35
Schedule BA – Part 3	E09	Schedule T – Part 2 – Interstate Compact	37
Schedule BA – Verification Between Years	SI03	Schedule T – Premiums and Other Considerations	36
Schedule D – Part 1	E10	Schedule Y – Information Concerning Activities of Insurer Members of a Holding Company Group	38
Schedule D – Part 1A – Section 1	SI05	Schedule Y - Part 2 – Summary of Insurer’s Transactions With Any Affiliates	39
Schedule D – Part 1A – Section 2	SI08	Statement of Revenue and Expenses	4
Schedule D – Part 2 – Section 1	E11	Summary Investment Schedule	SI01
Schedule D – Part 2 – Section 2	E12	Supplemental Exhibits and Schedules Interrogatories	40
Schedule D – Part 3	E13	Underwriting and Investment Exhibit – Part 1	8
Schedule D – Part 4	E14	Underwriting and Investment Exhibit – Part 2	9
Schedule D – Part 5	E15	Underwriting and Investment Exhibit – Part 2A	10
Schedule D – Part 6 – Section 1	E16	Underwriting and Investment Exhibit – Part 2B	11
Schedule D – Part 6 – Section 2	E16	Underwriting and Investment Exhibit – Part 2C	12
Schedule D – Summary By Country	SI04	Underwriting and Investment Exhibit – Part 2D	13
Schedule D – Verification Between Years	SI03	Underwriting and Investment Exhibit – Part 3	14